AMENDMENT TO THE MERCHANT MARINE ACT, 1936

(CONSTRUCTION DIFFERENTIAL SUBSIDY)

THE UNIVERSITY
OF MICHIGAN

JUN 20 1960

MAIN
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HEARINGS

BEFORE THE

MERCHANT MARINE AND FISHERIES SUBCOMMITTEE

OF THE

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

UNITED STATES SENATE

EIGHTY-SIXTH CONGRESS

FIRST AND SECOND SESSIONS

ON

S. 2584

A BILL TO AMEND TITLE V OF THE MERCHANT MARINE ACT, 1936, IN ORDER TO REMOVE CERTAIN LIMITATIONS ON THE CONSTRUCTION DIFFERENTIAL SUBSIDY UNDER SUCH TITLE

DECEMBER 3, 1959
FEBRUARY 15 AND 16, 1960

SAN FRANCISCO, CALIF.
WASHINGTON, D.C.

Printed for the use of the Committee on Interstate and Foreign Commerce

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1960

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DEPOSITED BY THE
UNITED STATES OF AMERICA

AMENDMENT TO THE MERCHANT MARINE ACT, 1936

(Construction Differential Subsidy)

THURSDAY, DECEMBER 3, 1959

U.S. SENATE,
SUBCOMMITTEE OF THE INTERSTATE AND
FOREIGN COMMERCE COMMITTEE,
San Francisco, Calif.

The subcommittee met, pursuant to notice, at 3 p.m., in the Federal Office Building, room 59, 50 Fulton Street, San Francisco, Calif., Senator Warren G. Magnuson (chairman) presiding.

Present: Senator Warren G. Magnuson, of Washington (chairman).

OPENING STATEMENT

Senator MAGNUSON. The committee will come to order.

I have a brief opening statement.

In our hearing today the Merchant Marine and Fisheries Subcommittee of the Senate will take testimony on S. 2584, legislation which would remove the 50-percent limitation on construction subsidies awarded for vessels constructed in U.S. shipyards.

These subsidies, which are paid directly to the shipyard, are designed to achieve parity in domestic construction costs with those of similar vessels constructed in lowest cost foreign yards. Recent Maritime calculations indicate that the differential between domestic and foreign costs has exceeded the 50-percent limitation presently contained in the Merchant Marine Act of 1936.

As a result of this, the competitive position which the principle of parity was designed to accomplish is no longer present and the issue is squarely before Congress to decide whether or not American operators on essential foreign commerce trade routes are to have parity or not.

In our hearing today we will take testimony from steamship operating companies, construction companies, and shipbuilding experts in an effort to find out whether the 50-percent level should be removed or raised, and to get more information about the bill.

The reason we are having the hearing today, in San Francisco, is that inasmuch as the regular committee will have some further hearings back in Washington, D.C., we thought it would be a very pertinent matter to have some testimony here from the field that we can take back with us to incorporate in whatever hearings we may have back there, which, naturally, will involve the administrative agencies, the departments involved, and testimony from some of the operators, and marine people on the eastern coast, as well as the gulf.

I would like to insert into the record, at this point, a copy of S. 2584.

(The bill referred to follows:)

[S. 2584, 86th Cong., 1st sess.]

A BILL To amend title V of the Merchant Marine Act, 1936, in order to remove certain limitations on the construction differential subsidy under such title

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 502 of the Merchant Marine Act, 1936 (46 U.S.C. 1152), is amended by—

(1) striking out the second, third, and fourth sentences in subsection (b) and inserting in lieu thereof the following: "In any case where the lowest bid of a responsible domestic shipbuilder is found to be unreasonable or excessive, the proposed contract may be negotiated with the view to construction in a domestic shipyard at a reasonable cost"; and

(2) striking out the last sentence in subsection (d).

Senator MAGNUSON. The Chair wants to apologize for setting this hearing back an hour, but we did have some urgent business with the shipbuilders conference today at noon, and some other matters to attend to, but I am hopeful we can finish up today with the witnesses we have here.

With me here today is Senator Clair Engle of California and Congressman John Shelley of California and Mr. Gerald Grinstein, who is one of the committee counsel on these matters.

So we will proceed as fast as possible, and I see the first witness is Mr. Tom Killefer who has a prepared statement, which is a short one. You can read it, Mr. Killefer.

Mr. Killefer is executive director of the Committee of American Steamship Lines.

Mr. Killefer.

STATEMENT BY TOM KILLEFER, EXECUTIVE DIRECTOR, COMMITTEE OF AMERICAN STEAMSHIP LINES

Mr. KILLEFER. My name is Tom Killefer. I appear here as executive director of the Committee of American Steamship Lines, an organization composed of 14 U.S.-flag steamship companies holding operating-differential subsidy contracts with the Government. We support S. 2584 and endorse the principle behind it—that complete parity with low-cost foreign-flag competition should be afforded the American shipbuilding industry.

Accompanying me today are Mr. Jack R. Dant, president of States Steamship Co., of San Francisco, who appears as vice chairman of CASL; Mr. John W. Clark, president of Mississippi Shipping Co., and Mr. Frank A. Nemec, senior vice president of Lykes Bros. Steamship Co., Inc., who appears as chairman of the CASL Vessel Replacement Committee.

Our member lines are also represented here by Mr. Harry Glennon, vice president of Moore-McCormack Lines, and by Mr. Burke G. Piper, vice president of Grace Lines, Inc.

We have with us, too, Mr. J. J. Henry, a naval architect and marine engineer who is the principal stockholder of J. J. Henry Co., Inc., with offices at 21 West Street, New York City. Mr. Henry will present testimony on worldwide shipbuilding capacities, production, and particularly on current differences in ship prices between U.S. shipyards and those of competitive, foreign shipbuilding centers. We believe that Mr. Henry, by reason of his background, organization,

and recent experience in these matters, is eminently qualified to furnish this information.

Mr. Henry and his organization have been under retainer to CASL since 1955 for purposes of compiling and coordinating foreign cost information from five major foreign shipbuilding centers.

CASL's relationship with the Henry organization and with our other foreign consultants was developed as a consequence of a growing realization on the part of our companies that they must have direct access to current information on worldwide shipbuilding prices, not only in order to assist the Federal Maritime Board in arriving at proper construction-differential subsidy determinations, but also to discharge management's responsibilities to their corporate directors and stockholders.

Once CASL had determined to establish a worldwide organization to cover this subject on a continuing basis, we consulted with the American Bureau of Shipping and requested that they undertake this assignment for us. The ABS declined on the basis that they were not qualified to do this kind of work since they were principally technical people and had little realistic knowledge of shipbuilding costs and prices. Thereupon we asked that they recommend to us outstanding naval architects or engineers qualified to provide this information in: Japan, West Germany, Holland, Italy, and the United Kingdom. This was done, and leading foreign firms of naval architects and engineers have been retained by CASL to make current surveys of shipbuilding prices and price trends in each of these centers. In addition, it became apparent to CASL that there was need for a domestic firm to coordinate the activities of this foreign organization, to act as liaison for our companies, and to coordinate data received from each of these foreign sources.

Mr. Henry and his organization measured up to our requirements. He not only had a domestic organization, but also had representatives in West Germany, Japan, and Scandinavia. Further, he had first-hand knowledge of foreign prices since he had designed and actually supervised construction of ships in these areas.

After considering this matter carefully, CASL retained the Henry organization in 1955 and the relationship has been maintained since that time. During this period the Henry organization has made a large number of specific cost studies for the CASL group as a whole and also has coordinated, reviewed, and summarized the conclusions of the foreign experts in a large number of specific cost studies individually requested by member companies of CASL. Because of his background, knowledge and experience, we believe Mr. Henry has a unique knowledge of shipbuilding prices in the free world.

CASL particularly appreciates the efforts of your subcommittee in arranging for this interim hearing on S. 2584 during the present adjournment of Congress. I wish to express in advance on behalf of all our member lines, our thanks to you for permitting us to appear here today.

We understand that at the conclusion of today's proceedings, the hearings on S. 2584 are to be held open and that further testimony on the bill will be adduced by the subcommittee in Washington during the coming session of Congress, at which time the Federal Maritime Board and other interested witnesses will be heard. CASL respectfully requests that it also be afforded an opportunity, at a time

convenient to the subcommittee, to appear again and present supplemental testimony bearing on the problem which S. 2584 is intended to resolve.

If it is satisfactory with the chairman, I will leave the calling of the witnesses to the subcommittee.

Senator MAGNUSON. Now, Mr. Poole is here and Mr. Nemec is here. I am wondering if we shouldn't hear from Mr. Henry first, and they can fill in whatever Mr. Henry doesn't testify to.

(Discussion off the record.)

Senator MAGNUSON. We will hear from Mr. Poole first.

Mr. Poole is vice president and comptroller of American President Lines.

Do you have a prepared statement?

Mr. POOLE. Yes.

Mr. Killion greatly regretted that he had committed himself to make the major address at a merchant marine community visit in Denver. I am sure that that enterprise is one in which this committee has a considerable interest, but at any rate, that is his duty. Before he left he prepared a statement which he asked me to read for him.

Senator MAGNUSON. We will be glad to hear from you.

Mr. POOLE. This is the statement that he prepared.

(The statement referred to follows:)

STATEMENT OF GEORGE KILLION, CHAIRMAN OF THE COMMITTEE OF AMERICAN STEAMSHIP LINES

I am George Killion, appearing as chairman of the Committee of American Steamship Lines. The members of this committee constitute all those who are operating vessels under operating-differential contracts with the United States. We support S. 2584 and urge its passage.

The program of the Merchant Marine Act, 1936, is to provide, for the benefit of the Nation, both the physical facilities and the citizen skills which go with a substantial merchant marine. With one hand, the law forbids the use of foreign ships, crews, ownership, repairs, and supplies. With the other hand, the law undertakes to compensate steamship operators for the otherwise insupportable costs thus entailed—American wages are far above those of competing maritime countries. The principle by which this is accomplished is parity—the leveling down of American vessel operating costs to equality with those of foreign-flag competitors.

The logic of the principle of parity is so obvious that it needs no further explanation on this occasion. The intent of the Congress to establish parity is equally clear in any review of the legislative history, the provisions, and the administration of the act. Nevertheless, the Congress in 1936 thought it prudent to examine the situation should foreign shipbuilding costs fall below half of the American shipbuilding costs. Provision for this examination was made by limiting construction-differential payments to 50 percent unless and until the Congress shall provide more by amendment.

Many persons in 1936 thought the possibility of foreign shipbuilding costs exceeding twice the domestic costs a remote one. Such, however, has been the development in recent years. The productive economy of this country has brought our standards of living up to where shipbuilding costs are more than twice those of foreign competitive shipyards. The review contemplated in the Merchant Marine Act is thus required, and it is being made in the form of your hearing on Senate 2584, a bill to remove the 50-percent ceiling on construction differentials.

No one has suggested that private steamship operators should subsidize shipyards in order to maintain them for the general good of the Nation. Presumably, therefore, the review required by the present 50-percent ceiling is for the Congress to assure itself that conditions do really require a construction differential greater than 50 percent. Our testimony is accordingly addressed primarily to showing first, that adequate and reliable methods have been developed for determining what foreign shipyard costs are, and second, that the use of these reliable methods

proves an actual, current differential in excess of 50 percent. In fact, there is good reason to expect that the differential will increase to some further extent before it levels off.

As long as the construction differential actually exceeds 50 percent and the act remains unamended, the United States is asking private steamship operators to do in fact what (as noted in the preceding paragraph) has never been suggested as a matter of principle; namely, use their own funds to subsidize shipyards for the general good of the Nation. S. 2584 will remove that illegitimate burden.

I express the gratitude of the Committee of American Steamship Lines that your subcommittee has given such prompt attention to the problem outlined by S. 2584. I want to assure you, also, that while the material we have gathered and will offer in our testimony is what we consider most germane to the problem, we shall promptly supply any other data or judgments you may want for the subcommittee's purposes, regardless of whether it is a part of what we have now assembled. We want to facilitate your reaching clear and positive views on the bill in question.

Senator MAGNUSON. Thank you, Mr. Poole.

Mr. Nemec.

Mr. NEMEC. It might be helpful if Mr. Henry came up to the table with me.

I have a rather long statement here, Mr. Chairman, which we feel you would want as a part of the record.

Senator MAGNUSON. We will put the entire statement into the record.

STATEMENT BY FRANK A. NEMEC, CHAIRMAN, VESSEL REPLACEMENT COMMITTEE, COMMITTEE OF AMERICAN STEAMSHIP LINES, AND SENIOR VICE PRESIDENT, LYKES BROS. STEAMSHIP CO., INC.

Mr. NEMEC. My name is Frank A. Nemec. I am a senior vice president of Lykes Bros. Steamship Co., Inc., New Orleans. I appear here today, however, as chairman of the Vessel Replacement Committee of the Committee of American Steamship Lines, in support of S. 2584.

GENERAL

In enacting the Merchant Marine Act of 1936 Congress adopted the parity principle as its basic philosophy in order to insure the development and maintenance of a merchant marine and domestic shipbuilding industry adequate to fill national needs and aspirations. The parity principle is founded on the sound theory that in order to survive in competition with low-cost foreign competition, the American shipowner and shipbuilder must be afforded competitive equality with foreign-flag interests in the cost of operating ships and in the selling price of ships.

There are no limitations on the payment of operating subsidy under title VI of the act, and parity of ship operating costs is an accomplished fact.

However, there is included presently in title V of the act a 50-percent limitation on the payment of construction-differential subsidy which limits the effectiveness of the parity principle. The bill which you have before you removes these limitations and therefore enables American-flag companies to acquire their ships from American shipyards at prices comparable to those paid by competing foreign-flag lines to foreign shipyards.

THE IMPORTANCE OF CAPITAL COSTS

Presently, most of the member companies of CASL have contracted with the United States for long-range shipbuilding programs calling for the construction of about 275 ships over a 15-year period at a total cost of about $4 to $4½ billion. Most of these contracts were executed during the relatively prosperous years following the Suez crisis and on the basis of the then prevailing levels of revenues and costs the program looked feasible. Since that time however, the international shipping climate has changed and the high capital costs of new ships has assumed increasing importance in the councils of our member companies.

At present there is a substantial worldwide imbalance between shipping capacity and cargo offerings. This imbalance probably will continue for a number of years because of a lag in the scrapping of old vessels, coupled with the continued worldwide construction of new and improved ships as a consequence of orders placed a number of years ago. Further, a noticeable reduction in commercial exports of the United States and the growing competitive impact of foreign economies on our postwar markets abroad aggravates the effect of this world situation on American-flag carriers.

Since World War II, shipbuilding prices in the world market have risen constantly. Although prices have now stabilized at somewhat below the peak reached following the Suez crisis, the bulk of the CASL ship replacement program will be at these new high-cost levels.

All of the foregoing factors raise serious questions about the ability of our lines to finance the costs of future vessel replacements particularly if these costs are increased further by reason of limitations on the payment of construction subsidies.

During the recent past, which has included some of the most prosperous years in the history of the American merchant marine, the combined earnings of all CASL lines did not equal additional depreciation on estimated replacement costs. This is shown below:

	1956	1957
Net income after taxes [1]	$73,599,000	$70,690,000
Less additional depreciation on replacement costs [2]	116,977,000	143,060,000
Net erosion of shipping capital	−43,378,000	−72,370,000

[1] As reported in combined financial statement of lines holding operating-differential subsidy contracts, certified by independent public accountants.
[2] Computed for this purpose as amounting to 4 times acquisition cost of present fleet.

The span of the present ship replacement schedule partially spreads the consequences of high depreciation and increased debt service costs. However, the current and prospective conditions outlined above make it necessary, indeed imperative, that American companies be enabled to purchase their ships at prices directly related to those of their foreign competitors—without any limitation on full parity.

THE DOMESTIC SHIPBUILDING INDUSTRY

At a time when questions are raised as to whether or not the continuance of the domestic shipbuilding industry is essential to the national interests, I want to make it unmistakably plain that CASL

completely supports the maintenance of a healthy, thriving shipbuilding industry in the continental United States.

Historically, no nation has long remained an international power unless it has maintained a strong merchant marine based upon ample shipbuilding capacity.

An effective merchant fleet helps a country gain stature. It is true today, as always, that in a peacetime economy trade follows the flag; and that wherever the flag flies foreign trade will develop.

Shipbuilding's importance is also closely linked to our national economy.

Effects of a shipbuilding program are felt far beyond the shipbuilding industry. Every item going into a ship represents labor. Workers in every State in the Union, and in many industries, participate in the construction process.

Building a ship sets in motion activities of the mines, the forests, the farms, the factories, and the various forms of transportation.

If we had no shipyards of our own, we would have to depend exclusively on foreign yards to keep our flag flying. In emergency periods those shipbuilding facilities might not be available. Consequently, our defensive and offensive capabilities would be impaired seriously.

The atomic age has not changed this picture. Gen. Nathan F. Twining, Chairman of the Joint Chiefs of Staff—writing to Senator John Marshall Butler, on October 18, 1957—finds it—

> incredible * * * that anyone could argue seriously or with justification that the new concepts of warfare obviate the necessity of further fostering a merchant navy.[1]

In the event of a general war that might cripple land transport, he pointed out, only merchant ships would be able to carry the essential raw materials and foodstuffs needed by the civilian population as well as our Armed Forces overseas.

In a recent article, a Navy spokesman, in describing the Navy of 1960–70, said:[2]

> A war of limited objectives will, by definition, be fought outside the Soviet colonial empire and the United States. To accomplish this we must exploit to the fullest the Navy's traditional role of exerting power across the ocean expanses. Thus we must be capable of controlling the critical sealanes, of striking the objective area with discrimination and precision, and landing forces promptly and effectively.
>
> The principles of warfare remain fixed; it is only the methods or weapon systems that change. As an example, Genghis Khan provided a deterrent by destroying and killing a city of 1 million people—a destruction greater than either atomic bomb of World War II. Timely concentration was reemphasized in the Civil War by the famous saying, "Git there fustest with the mostest." We in the Navy do not envisage new principles of warfare—only the modern ways of executing them.

A healthy, effective merchant fleet and shipbuilding industry are just as essential today as they were in the days before the atom bomb or intercontinental missiles.

CONSTRUCTION-DIFFERENTIAL SUBSIDY

In order to assist in the development of a strong shipbuilding industry the Merchant Marine Act provides for the payment of construc-

[1] "Rising Prices a Threat to American Shipbuilding," Shipping Outlook, Committee of American Steamship Lines, vol. 3, No. 2, July 1959.

[2] "The Navy of 1960–70," Vice Adm. John T. Hayward, Deputy Chief of Naval Operations for Development, U.S. Navy, the General Electric Quarterly, vol. II, No. 4, October–December 1959.

tion-differential subsidy so as to permit American shipowners to buy vessels from domestic shipbuilders at the same price at which they could buy such vessels in foreign yards.[3] These payments go directly to the shipyards, and their primary purpose is to help equalize the wages paid to American shipyard labor with the lower wage scales that prevail in foreign shipyards. Mr. Henry, who is with me today, will furnish this committee with evidence as to the controlling importance of the difference between American and foreign labor costs on the selling price of ships.

Construction-differential subsidy payments, in recognizing the requirement that U.S. citizens build vessels in domestic rather than in lower cost foreign yards, are helping to maintain the nucleus of an American shipbuilding industry. The term "subsidy" is not entirely descriptive since the shipyard receives only the domestic price of the vessels and the purchaser of the vessel is placed in no better position than if he had constructed his vessel in a foreign yard. In any case, however, these subsidies are intended to sustain the domestic shipbuilding industry and do not inure to the benefit of the vessel purchaser.

CONSTRUCTION SUBSIDIES LIMITED TO 50 PERCENT

Present provisions of the 1936 act provide safeguards against payments in excess of parity on construction subsidies, but at the same time place a ceiling on parity by saying that shipyard subsidies must not exceed 50 percent of the vessel's building price.

The 50-percent limitation was based on the assumption that at the time of enactment this ceiling would more than cover the difference in building prices here and abroad. In fact, when the proposed legislation was being discussed, the Senate Committee on Commerce quoted "all experts on the subject" as believing that the price difference on cargo ships was approximately 40 percent. By fixing a ceiling at 50 percent, Congress clearly intended to provide a margin of safety to insure that payments in all instances would equal parity.

Some shipping authorities, however, anticipated the possibility that the real objective of the act might someday be frustrated by rising prices. Among these was the Maritime Commission which, shortly after the legislation was adopted, said: [4]

> The limitation in this provision will present a real obstacle to the construction of new units for our merchant marine whenever foreign shipyard costs are less than half of ours, for in such a case it would be cheaper to build abroad rather than here, even after taking into consideration the maximum subsidies allowed under the act.

WIDENING SHIPBUILDING DIFFERENTIALS

Recent determinations by the Federal Maritime Board, as well as independent studies conducted by the Committee of American Steamship Lines and data submitted by individual companies, show that the differential between foreign and U.S. shipbuilding prices has been widening steadily.[5] This has been reflected in construction subsidy

[3] See "A Legislative History of Shipbuilding Subsidies Under the Merchant Marine Act, 1936," CASL, June 1959, for the historical development of shipbuilding subsidies in the United States.

[4] "Economic Survey of the American Merchant Marine," Maritime Commission, November 1937.

[5] Construction subsidies are determined on the selling prices of vessels and not on shipyard building costs. In recent past, due to boom conditions in world shipbuilding centers brought about by the Suez crisis and other developments, selling prices have varied widely. However, under today's conditions with an excess of world shipbuilding, both domestic and foreign selling prices have declined, but the relative difference has widened. Mr. Henry will explain this more fully.

percentages approved by Government in new ship contracts after comparing prices companies would pay to buy these ships in foreign and in U.S. shipyards.

A brief summary of differentials recently determined by the Federal Maritime Board clearly illustrates this trend (calculated on low bid prices):

Date of bid openings:	*Calculated differential (percent)*
October 1957	44. 5/45. 3
July 1958	48. 4/48. 8
October 1958	49. 2
December 1958	48. 3
March 1959	50. 8
April 1959	49. 4
June 1959	51. 0

NOTE.—Escalation costs may further increase the final differentials of certain of these figures so that they will exceed the 50-percent level.

The actual price differentials will vary with bids and market conditions but because of certain built-in factors, we believe the spread will continue to increase during the next several years. In any case, however, current construction differentials now approximate the 50 percent level and, in the light of this fact, the present statutory limitation is restrictive and unrealistic.

Mr. Henry is here with me today and, at the conclusion of my statement, will furnish additional information on recent price trends and current and prospective differences between the cost of constructing similar vessels in the United States and in foreign yards.

All things being equal, American operators prefer to build their ships in American yards. However, just as in any other business, American steamship companies cannot ignore the important cost factor involved in higher capital costs. It is clear that as foreign prices continue to drop, the present limitations in the 1936 act would incline the CASL companies to build abroad if they were not required to build in American yards.

Under these circumstances we believe that simple justice calls for removal of the limitations in the 1936 act so as to permit American owners to purchase their vessels at competitive world prices and to remove a possible impediment to the construction of these vessels in American yards.

HIGH CAPITAL COSTS

Even without regard to possible additional capital costs imposed by present limitations in the 1936 act, the members of CASL are faced with a very difficult capital problem which stems from two main factors:

1. While the ship prices have declined from their post-Suez levels, they are still high and it is likely that the vast majority of the 275 vessels to be constructed by CASL members will be built at or above these present cost levels. Unlike their foreign competitors who replaced their ships during this rise and therefore have averaged their costs, the American owner will be faced with the burden of replacing vessels at this new, higher price plateau.

2. The cost of vessels having comparable service utility is higher in the United States than in most foreign countries. This is due to a combination of factors involving higher American building stand-

ards, built-in defense requirements, accommodations dictated by American custom and practice, and possibly other factors, all of which result in increased costs. This disparity between our capital costs and those of our principal foreign competitors is already a matter of great concern to American shipowners.

To illustrate the gravity of this problem, consider that today substantial numbers of high-speed, so-called S-type vessels are being built by the Japanese. These ships have a cubic capacity in excess of 600,000 cubic feet and are capable of a service speed of around 18 knots under fully loaded conditions. At the present time they sell in Japan for less than $3,700,000.

While their passenger and crew quarters, sanitary facilities, steward's departments, and various details of finishing are austere compared with American standards, they are nevertheless excellent cargo carriers and will, in future years, be redoubtable competitors to the new American-flag vessels of our companies.

Their American counterpart, built in American yards and after giving effect to construction subsidies, will cost the American shipowner more than $5 million. While this ship will contain refinements and facilities somewhat superior to the Japanese-type vessel (such as air conditioning, more commodious crew quarters, and the like) the Japanese vessel also has some technical efficiencies not found in the American ship (such as diesel power) which may result in operating economies over the years. In any case, the increased cost to the American owner is not reflected in increased efficiency or capacity of the American ship over its Japanese counterpart.

The difference in cost, amounting to about $1¼ million, represents an excess capital cost that must be recovered by the American shipowner before his ship is competitively equal to the Japanese liner operator—in the capital sense.

The capital disability of the American shipper is increased additionally by debt service involved in financing this additional capital cost. This may be illustrated by the following oversimplified example:

Basic difference in price	$1, 250, 000
Interest	[1] 625, 000
Capital disability of American shipowner	1, 875, 000

[1] This represents 5 percent per annum (to cover either interest costs or loss of investment earnings) on the average investment over 20 years.

The foregoing does not include any compensation to the American shipowner for risk or return of his economic investment in the ship.

VESSEL RESTRICTIONS

Government payments under title V of the act wisely were provided by the Congress to create and maintain an American shipbuilding industry in the face of lower foreign costs. These Government aids (whether called shipyard subsidies, cost absorptions by the United States, or construction differentials) have been created for purposes of strengthening American shipbuilding facilities. While this is true, the 1936 act places serious restrictions on the shipowner who buys an American ship as contrasted with an owner who buys a ship built in foreign yards.

Under the act, the two principal restrictions on vessels built under the construction subsidy provisions are:

1. Agreement of the American shipowner to maintain his vessel under American-flag registry for at least 20 years. This bars transfer of the ship to foreign-flag operation and thereby directly affects the value of the vessel by limiting access to world markets.

2. The vessel becomes subject to requisition at a price not in excess of depreciated construction costs. In times of inflation, this is an extremely serious disability which is not applicable to vessels built in foreign yards.

These matters are noted here merely to emphasize that companies building under title V incurred serious restrictions as contrasted with foreign-flag owners—even without the subsidy limitations now present in the act.

CONCLUSION

CASL stands squarely in support of an adequate American shipbuilding industry and feels that this industry is necessary both to the domestic and foreign commerce and the defense of the United States.

Limitations on construction-differential subsidy which require shipowners to absorb part of the burden of supporting shipyards is inequitable and in the long run will tend to frustrate the purposes of Government aid to shipyards.

In the case of nonsubsidized operators these limitations probably will discourage future building completely and eliminate any possible hope of building and operating any such vessels under the American flag. In the case of companies holding operating-differential subsidy agreements a further widening of shipbuilding differentials, both here and abroad, may have serious consequences on the ability of these companies to progress their building program.

The member lines of CASL are already confronted with the problems of replacing most of their ships at high, current shipbuilding prices. The burden of these high capital costs under depressed shipping conditions creates many, many problems and is receiving continuous study by our group. Any factor, such as the present limitations on construction-differential subsidy, which adds to the burden of these high capital costs may jeopardize the entire ship construction program.

Parity with competing foreign-flag ships is the fair and equitable foundation of the 1936 act.

At a time when American operators are facing serious problems in financing the high cost of replacement ships, complete parity in the purchase price of ships is essential to this program.

The bill which is before your committee, by removing restrictions on the payment of construction-differential subsidy, will place American operators on a complete parity with their foreign competitors and further the interests of the shipbuilding industry.

Accordingly, CASL fully supports and endorses the purposes of this bill and urges its swift enactment into law.

Mr. Killion, through Mr. Poole, has summarized very well indeed the parity principle which is here involved, and I see no purpose at this time in reviewing it again since other witnesses will also emphasize the importance of the parity principle insofar as subsidy is concerned. I think, however, it is important to an understanding of this problem to the shipping industry that we do briefly discuss the trend of capital

costs, and the significance of these very high shipbuilding costs to the operating lines.

As this committee knows, the members of CASL are committed to build 275 ships which will cost a total of about, somewhere between $4 and $4½ billion. The shipbuilding commitments are part of a long-range operating differential subsidy program which were negotiated with the Federal Maritime Board, in a large part, in the relatively prosperous years directly following the Suez crisis. On the basis of the studies made at that time the program looked feasible. Since then, however, the international shipping climate has changed, and the earnings of shipping companies have declined very much, and the high capital costs of new ships are a matter of increasing importance in the councils of our member companies.

At the present time there is a very marked worldwide imbalance between shipping capacity and cargo offerings. We are convinced that this imbalance will continue for a number of years because of the lag in scrapping of old vessels, coupled with deliveries on shipbuilding orders placed a number of years ago in foreign yards, as well as our American yards. Most of this construction is a consequence of orders which were placed 1 or 2 years ago.

Further, the U.S. export trade, as the Senator remarked at lunch today, has been declining sharply from the levels reached after Suez. The growing competition in our postwar markets aggravates the problem of this world situation on American-flag carriers.

Since the end of World War II, shipbuilding prices in the world market have had an almost uninterrupted climb. Although prices have now stabilized at somewhat below the peak reached following the Suez crisis, it was a peak which was heightened by speculative fever, if you will, and while prices have declined since then, they have now reached a plateau which is far higher than the price levels that prevailed in the early postwar years.

The important point to us, as we get into a ship replacement program, is that we are commencing it at a new high-cost plateau. All of these things raise serious questions about the ability of our lines to finance the high costs of future vessel replacements, particularly if the costs are increased further by limitations on the payment of construction subsidies.

On page 3 I have included an oversimplified table which shows the effect of high current-day ship replacement costs on earnings of the lines. During the years 1956 and 1957 the American merchant marine had two of the most prosperous years in its history. During that period of time, as is shown by the combined financial statements of all of the members of CASL, they realized, respectively, $73,599,000 in 1956, and $70,690,000 in 1957. To illustrate the impact of replacement costs on those earnings we have in effect taken the economist's conventional measurement which is to estimate whether or not those earnings were adequate to cover the high depreciation values on replacement capital costs. We have estimated that the additional depreciation which is required to cover the new high replacement values by taking for this purpose four times the acquisition cost of the present fleet as additional depreciation. It will give you some idea of the magnitude of the problem. After deducting those amounts, we have calculated an erosion of shipping capital which in each of the

2 years is a substantial figure. It is more than $43 million in 1956 and $72 million in 1957.

Now, we know that the span of the present ship replacement schedule partially spreads the consequences of high depreciation and increased debt service costs. However, all of these conditions, which I have discussed, make it imperative that American companies be enabled to purchase their ships at prices directly related to those of their foreign competitors, and without any limitation on full parity.

In the next section I should like the Senator, the chairman of this committee, and Mr. Engle to notice that CASL completely supports the maintenance of an American shipbuilding industry in the continental United States. We can't possibly measure the value of it, not only to the coastal regions, but also to the interior, and also to the many people that are working in many different walks of life. We think that the importance of a vigorous shipbuilding industry will become more notable in the future.

In this day when the importance of the shipbuilding industry is questioned, I think it significant to note the statements of Gen. Nathan F. Twining, which we have quoted at the bottom of page 4, and the even more recent statement by the Chief of Naval Operations, where he says, "The principles of warfare remain fixed; it is only the methods or weapon systems that change," the problem is "Git there fustest with the mostest."

We in the merchant marine are fully in accord with it when he says, "We in the Navy do not envisage new principles of warfare—only the modern ways of executing them."

We believe a healthy, effective merchant fleet and shipbuilding industry are just as essential today as they were in the days before the atom bomb, or intercontinental missiles.

In the next section we outline briefly the matter of construction differential subsidy, and also point out that basically these subsidies are intended to sustain domestic shipbuilding and do not inure to the benefit of the vessels' purchasers. All they do is equalize our prices with those we could buy ships for in the world market.

The 50 percent limitation section, which begins at the bottom of page 6, summarizes some material we have included in a very detailed review of the legislative history of shipyard subsidies, and if it suits the pleasure of your committee we will be glad to file a copy of this extensive legislative history for the record.

In the next section we touch upon some of the matters which are important in this widening differential as we have seen it.

During the period since Suez, the differential has broadened very considerably. That period which was marked by exaggerated and high prices on the part of the foreign shipyards resulted in relatively low differentials. I think you can note the trend by looking at the top of page 8, and we have there set down the calculated differentials that the Federal Maritime Board has developed over the past several years. We would like to emphasize, Mr. Chairman, that these latter differentials are estimates, and that the actual differentials for 1958 and 1959 may be considerably above these figures so that in effect the going rate on the differentials has moved up to and beyond the 50 percent level. We believe that this trend will continue during the next several years. Further, since the construction differentials now

approximate the 50 percent level, the present statutory limitation is restrictive and unrealistic.

On page 9 we call attention again to the effect of these high capital costs, and point out, as we have briefly evidenced before, that this is a major problem to the member lines of CASL itself. It is major because of several implications—not only are we building at this very high plateau, but we are faced with the competition of foreign operators who, even after construction subsidy, are building their vessels at a far, far less cost. On page 10 I have outlined briefly the importance of this.

There is now being introduced by the Japanese into all American trades, and I believe in great numbers in the transpacific trades, the so-called S class ship. They are the highest class liner vessels being built by the Japanese for liner service to America. They are large ships, somewhat of the dimensions of the C–3's, and have a service speed of around 18 knots under fully loaded conditions. At the present time they will sell in Japan for less than $3,700,000. They are excellent carriers. Now, the price of a comparable American ship in American yards, and building to American conventions, and committed to operating a ship with American crews, is equivalent to over $5 million—a vessel of comparable utility. The vessel is no doubt better in many respects, not as a cargo carrier. For example, it has more commodious crew quarters, more elaborate equipment, and superior cargo gear; but as a cargo carrier, which is the test in freighter service, the Japanese vessel is equally competitive to the American operator with a $5 million ship. This difference represents the excess capital cost which we in large measure have to bear because we are operating under the American flag. What we are trying to point out is that before we can be competitively equal with the Japanese liner operator we have an initial capital recovery to make. That is summarized at the top of page 11. This basic difference is further increased by the interest we have to pay in carrying that capital difference—or by the income we lose on this difference in price. We have estimated that before we are equal with the Japanese shipowner in a capital sense, we have first to earn and retain $1,875,000 before the new ship in the capital sense is competitive with the Japanese operator.

Now, something which is very seldom appreciated by the people who are not acquainted with the 1936 act is that while construction subsidy is paid for the benefit of maintaining an American shipbuilding industry, and quite properly so, it is the vessel owner who incurs the principal disabilities under title V of the act. We are evidencing that in this rather brief statement in order that you may have a record of it for the purposes of these hearings. The principal restrictions on vessels built under title V are, first, our agreement to maintain ships under the American flag registry for 20 years. This limitation on the right of transfers to foreign flag operation, basically, inhibits the market value of that ship. The second restriction which is placed on a vessel which is built with the aid of a construction subsidy is that it will become subject to requisition by the United States at a substantially depreciated book value in time of emergency, or war, during inflationary periods. This is an extremely serious disability which is not applicable to people buying ships in foreign yards.

Accordingly, it is clear that companies building ships under title V have serious restrictions even without the subsidy limitations which are now present in the act.

CASL stands squarely in support of an adequate American shipbuilding industry, and feels that this industry is necessary both to the domestic and foreign commerce and the defense of the United States.

Limitations on construction-differential subsidy which require shipowners to absorb part of the burden of supporting shipyards is inequitable, and in the long run will tend to frustrate the purposes of Government aid to shipyards.

In the case of nonsubsidized operators, these limitations probably will discourage future building completely, and eliminate any possible hope of building and operating any such vessels under the American flag. In the case of companies holding operating-differential subsidy agreements, a further widening of shipbuilding differentials, both here and abroad, may have serious consequences on the ability of these companies to progress in their building program.

The member lines of CASL are already confronted with the problems of replacing most of their ships at high current shipbuilding prices. The burden of these high capital costs under depressed shipping conditions creates many, many problems and is receiving continuous study by our group. Any factor, such as the present limitations on construction-differential subsidy, which adds to the burden of these high capital costs, may jeopardize the entire ship construction program. Parity with competing foreign flag ships is the fair and equitable foundation of the 1936 act.

At a time when American operators are facing serious problems in financing high cost of replacement ships, complete parity in the purchase price of ships is essential to this program.

The bill which is before your committee, by removing restrictions on the payment of construction-differential subsidy, will place American operators on a complete parity with their foreign competitors and further the interests of the shipbuilding industry.

Accordingly, CASL fully supports and endorses the purposes of this bill and urges its swift enactment into law.

Senator MAGNUSON. Thank you, Mr. Nemec.

Let me ask you one question. On page 8, just for the purpose of the record, you say:

> Present limitations in the 1936 act would incline the CASL companies to build abroad if they were not required to build in American yards.

What do you mean by that?

Mr. NEMEC. What we are trying to illustrate—we can't, of course, but if we had a free choice of building here as compared with abroad, you just couldn't afford to take this continuing business disability, purely in a business sense.

Senator MAGNUSON. You also state, I don't quite understand, you mean nonsubsidized operators, these limitations would discourage future shipbuilding completely; what limitations do you mean?

Mr. NEMEC. Limitation on construction subsidy to them.

Senator MAGNUSON. But some of the limitations to nonsubsidized operators don't exist. Some limitations on this don't exist as far as resale is concerned.

Mr. NEMEC. That is correct.

Senator MAGNUSON. As far as market price is concerned?

Mr. NEMEC. Any ship which is built with the aid of a construction subsidy must contain, or the contract for the subsidy of that ship must contain the restrictions which we dealt with.

Senator MAGNUSON. All right.

Any questions? Senator Engle?

Senator ENGLE. No; I think not. That was an excellent statement.

Senator MAGNUSON. Thank you.

Mr. GRINSTEIN. How is the operator hurt in view of the Board's power to negotiate a contract where bids exceed 50 percent?

Mr. NEMEC. As a matter of practice, the Board never negotiated a contract with a shipyard when the differential has exceeded 50 percent. It is an odd provision. I suspect the shipbuilding industry would not be very pleased with putting bids under a competitive bidding situation, and once the bids were in to have the Board depart from the normal bidding process and attempt to negotiate the price downward, but, answering your question flatly, the Board has never attempted to negotiate a price down.

Senator MAGNUSON. The situation hasn't arisen until just recently, the last year or 16 months?

Mr. NEMEC. In those contracts, yes, and there has not been any attempt to reduce the shipyard's price.

Senator MAGNUSON. So that provision hasn't, in the past, applied?

Mr. NEMEC. Correct.

Mr. KILLEFER. The provision cannot be used to result in a construction subsidy of more than 50 percent.

Mr. GRINSTEIN. Or less?

(The following information was subsequently supplied for the record:)

LYKES BROS. STEAMSHIP CO., INC.,
New Orleans, La., December 31, 1959.

Subject: Senate bill S. 2584.

Mr. GERALD GRINSTEIN,
Counsel, Senate Committee on Interstate and Foreign Commerce,
New Senate Office Building, Washington, D.C.

DEAR MR. GRINSTEIN: At the conclusion of our hearings in San Francisco on the above bill, we agreed to furnish for the record certain information indicating the relative and growing importance of Iron Curtain countries in the competitive world shipbuilding picture and also to furnish some information as to the relative price levels.

You will recall that I recited in general terms the instance of worldwide bidding for liner vessels intended to be constructed for the Argentine State Fleet and the Argentine Dodero Line. Bids on these vessels were requested by the Argentines from many of the major shipyards of the free world—excluding only Japan. In addition, bids were sought from two Yugoslavian shipyards. There is attached copy of a letter from Monro B. Lanier, vice chairman of the board of the Ingalls Shipbuilding Corp. of Pascagoula, Miss., transmitting to me information obtained by Ingalls on these bids. You will note from his letter of May 8, 1958, addressed to Mr. Morse as Maritime Administrator, that the low Yugoslavian bid was approximately 10 percent lower than the low free world bid proferred by the Danish Helsingor yard, and more than 20 percent below the prevailing level of other free world shipyards.

As is often the case, following submission of these foreign bids, the Argentine Government began to negotiate for the placement of these ships. Various reports first indicated that the bid would be awarded to the low Danish shipyard, and then possibly to the Swedish yard (Kockum's), and then later it was stated that the bid was in fact made to the Ottensener yard at Hamburg, Germany, at a price considerably less than the original bid.

However, after months of speculation, the Argentine Government finally announced that the contracts for the vessels were in fact being awarded to Yugoslavia with payment therefor to be made on a barter basis. It was also stated at the time that the price was reduced somewhat from the original bid price of $3,676,000 per ship.

At a time when orders for liner vessels of this type were scarce, these contracts were actively sought by free world shipyards. The ability of Yugoslavia to obtain award of these shipbuilding contracts in the face of this redoubtable competition indicates to us that in future years the Iron Curtain countries will become a more competitive factor in world shipbuilding and in affecting prevailing prices of free world shipyards.

There is also attached a copy of a letter dated December 18, 1959, addressed to me by J. W. Clark, president of Mississippi Shipping Co., Inc., New Orleans, La., transmitting information on certain Polish built vessels being constructed for use of the Brazilian Lloyd Brasileiro Line. In these cases, these ships built behind the Iron Curtain will be competing with both the Mississippi Shipping Co., Inc., and the Moore-McCormack Lines.

We respectfully request that this letter and the attachments be made a part of the record of these hearings.

Yours very truly,

FRANK A. NEMEC,
Chairman, Vessel Replacement Committee,
Committee of American Steamship Lines.

MISSISSIPPI SHIPPING CO., INC.,
New Orleans, December 18, 1959.

Mr. F. A. NEMEC,
Vice President, Lykes Bros. Steamship Co., Inc.,
New Orleans, La.

DEAR FRANK: At the close of the hearings in San Francisco on December 3, which included our appearance before a subcommittee of the Senate Interstate and Foreign Commerce Committee, to present testimony in connection with the Magnuson-Butler bill (S. 2584), it was agreed with committee counsel that we would submit additional information concerning the construction of certain Latin American vessels in shipyards located in Iron Curtain countries. I had in mind, particularly, the construction of new vessels for the Lloyd Brasileiro Line in Polish shipyards, as, during a recent visit to Brazil, I was personally informed by the managing director of Lloyd Brasileiro, Don Jose Marcal, that he expected to use some of these new Polish-built vessels in the Brazil-United States trade.

In the latest issue of the British publication, "The Motor Ship," December 1959, there is reference to these new vessels for Lloyd Brasileiro, with the statement that the first of these vessels is "* * * now operating in the West Europe-Brazil service."

In addition to the above, I understand that you are in possession of specific information related to the construction of new Argentine vessels in Yugoslav shipyards and it is to be expected that these vessels will be used in competition with Delta Line on trade route 20, and in competition with Moore-McCormack Lines on trade route 1.

In your capacity as chairman of the vessel replacement committee, CASL, I think it would be appropriate if you would consolidate this information and submit same to Mr. Grinstein for the consideration of the committee.

With very best wishes, I remain,

Sincerely yours,

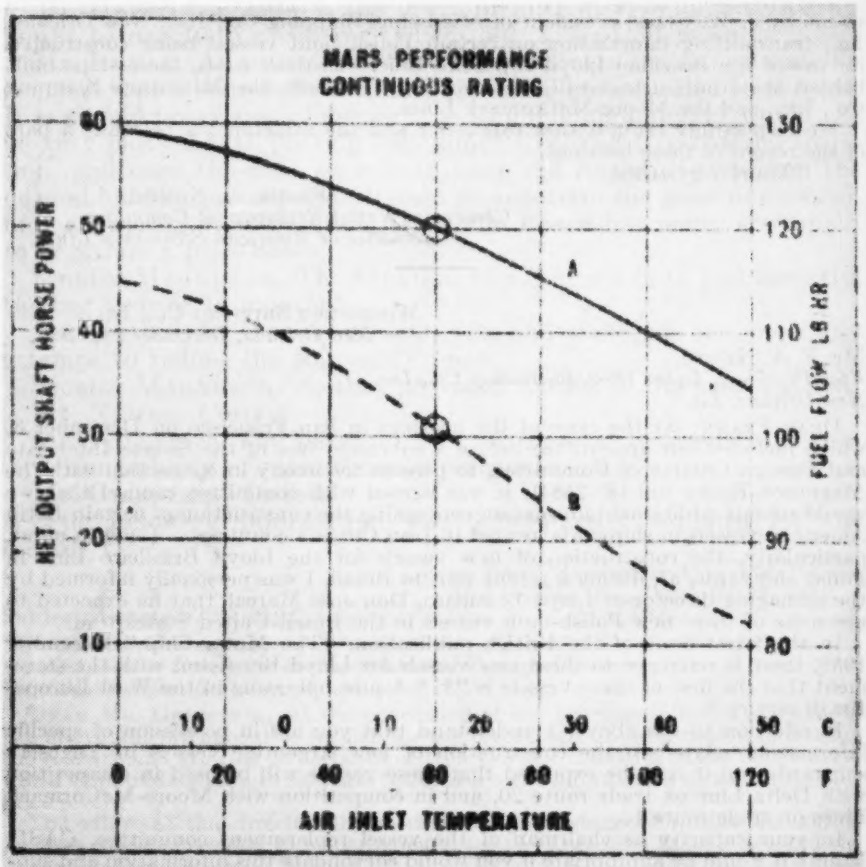
J. W. CLARK, *President.*

[From the Motor Ship, December 1959]

A PERKINS GAS TURBINE WITH MARINE APPLICATIONS

A compact design of low-powered gas turbine is being exhibited by Perkins Gas Turbines, Ltd., a subsidiary of Perkins Engines, Ltd., at the National Boat Show, London, on December 30, 1959. This Mars 50-horsepower unit, designed by the Solar Aircraft Co. of California, U.S.A., is being manufactured by Perkins primarily as a pump set but will also be available as an emergency generator, air compressor and for ship de-icing purposes. With a basic weight of only 98 pounds

the output of 50 horsepower gives the turbine the excellent power weight ratio of almost 1:2, and it is claimed to be able to operate equally well on diesel oil, paraffin or low-grade petrol. There are three basic components: a single-stage centrifugal compressor, an elbow-type combustion chamber and a single-stage radial inward flow turbine. Compressor and turbine are mounted on the same shaft with seal-plate separation, and power output is taken from an extension of this shaft. A double-row ball bearing supports the shaft at the output end and a single roller bearing supports the compressor and turbine end. At the maximum rated output the rotating assembly has a speed of approximately 40,000 revolutions per minute which is reduced by the standard-fitting gearbox to 4,400 revolutions per minute.



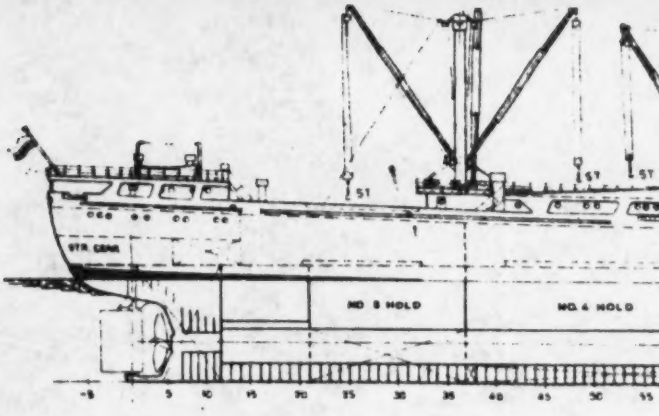
A.—Net Output Shaft Horse Power. B.—Fuel Flow lb./hr. Fuel—18,000 B.T.U./lb.

Notes 1. O indicates rating point.

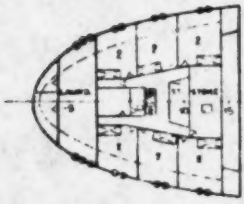
2. Output Speed 4,400 r.p.m. (turbine speed 40,000 r.p.m.).

3. Maximum turbine exhaust gas temperature 1050 F (565 C).

4. Net output shaft horse power includes power losses to reduction gear and accessories.



POOP TWEEN DECK



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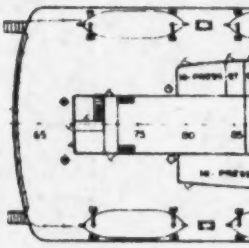

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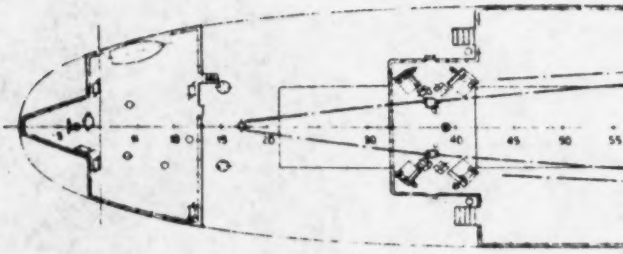

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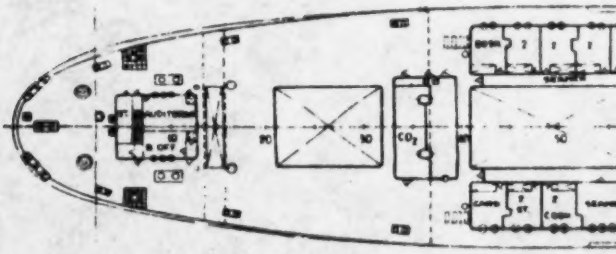
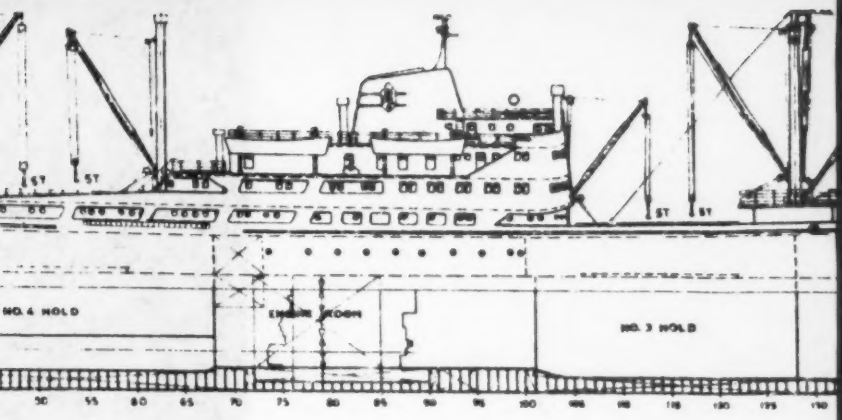


Cargo space	m³
No. 1 hold	947
No. 1 'tweendeck	918
No. 1 fore 'tweendeck	259
No. 2 hold	1 609
No. 2 'tweendecks	1 376
	1 026
No. 3 hold	2 050
No. 3 'tweendecks	1 339
	1 161



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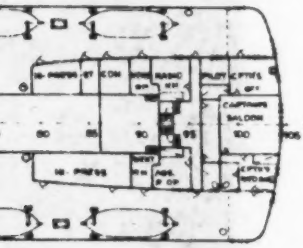

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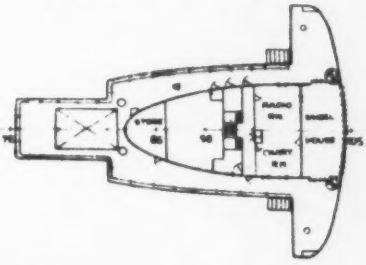

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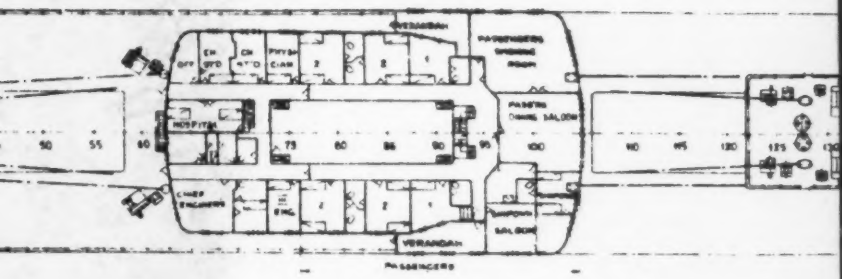
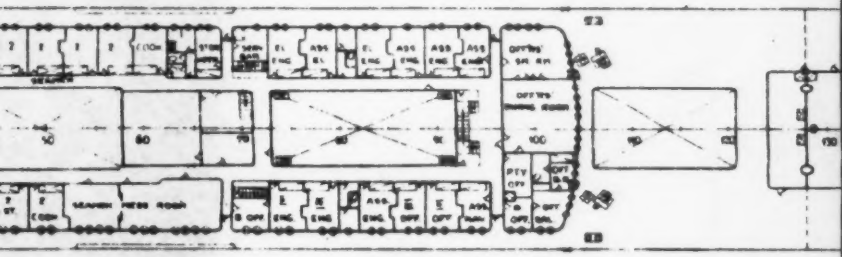
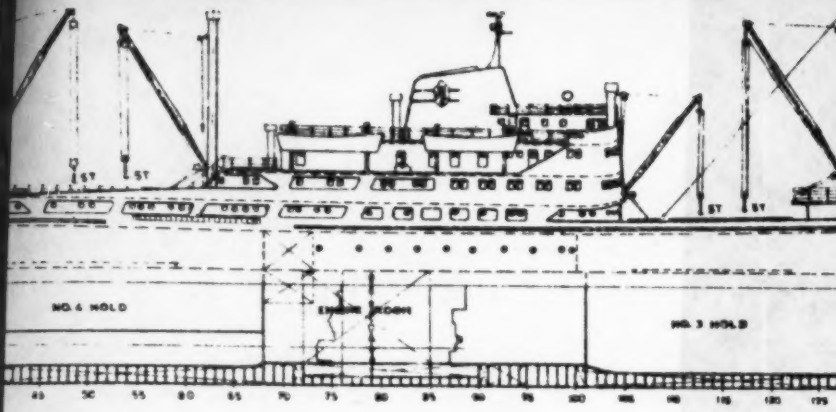




CARGO CAPACITIES

Grain		Bale		Cargo spac
m³	ft³	m	ft	
947	33,443	858	30,300	No. 4 hold
918	32,419	832	29,382	No. 4 'tweendecks
255	9,005	238	8,405	No. 5 hold
1,605	56,680	1,535	54,208	No. 5 'tweendeck
1,376	48,593	1,307	46,156	Mail room
1,026	36,233	964	34,043	Locker
2,050	72,395	1,962	69,288	
1,339	47,287	1,285	45,380	
1,161	41,000	1,119	39,517	Grand total



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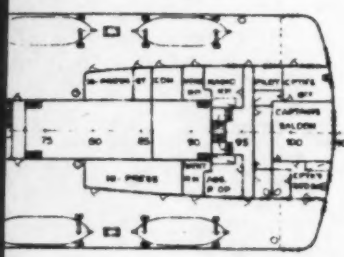

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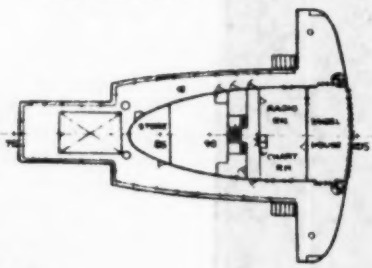
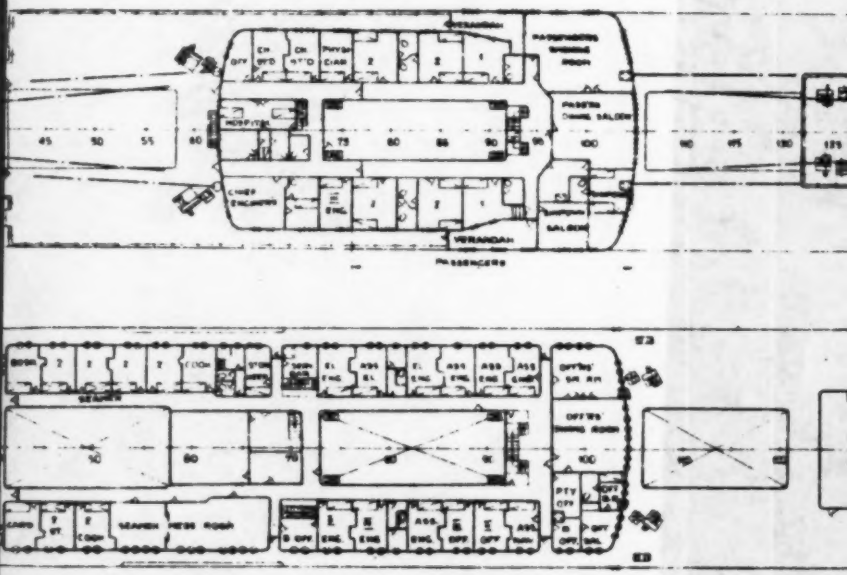


UPPER DECK



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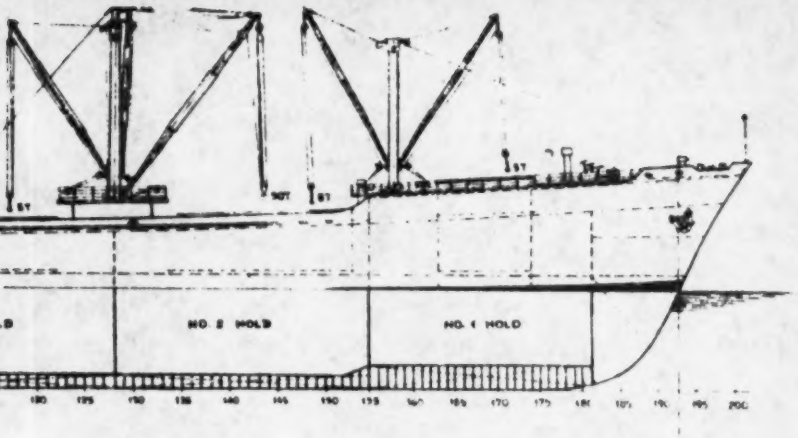
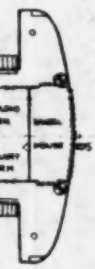
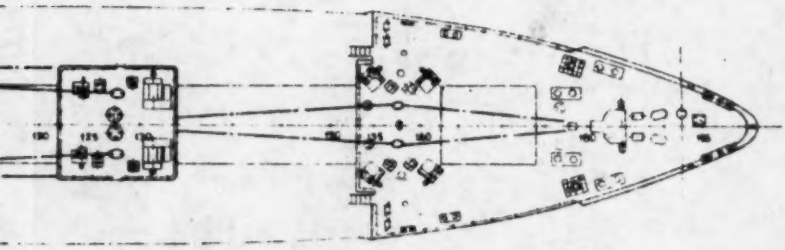
1,339	47,287	1,285	45,380	
1,161	41,000	1,119	39,517	Grand total



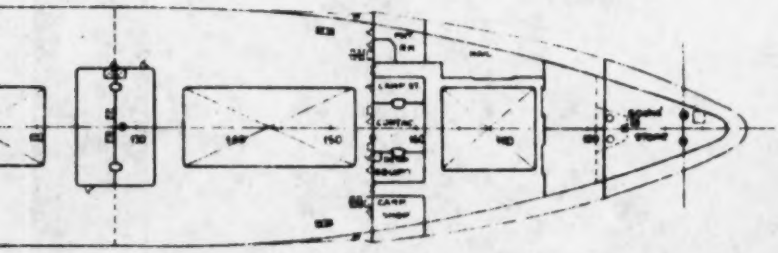


GENERAL ARRANGEMENT PLANS OF THE M.S. "EMILIA PLATER," ONE OF THE 10,000-TON, 7,800-B.H.P. SERIES

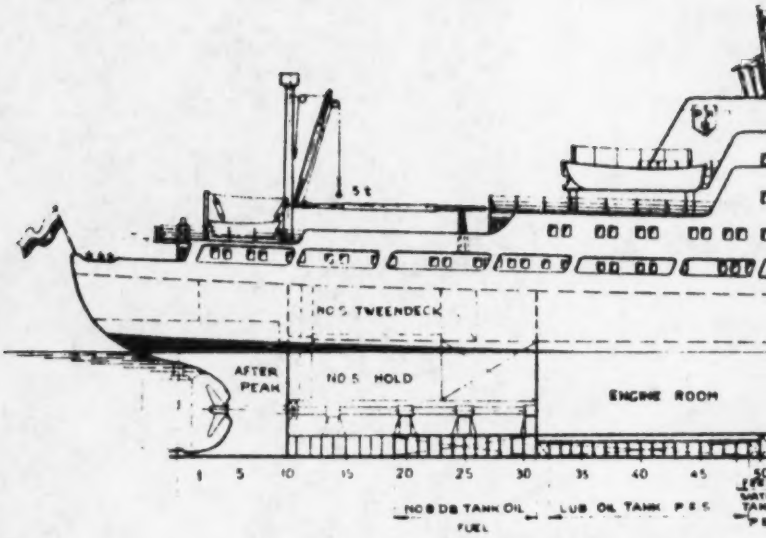
FORECASTLE DECK



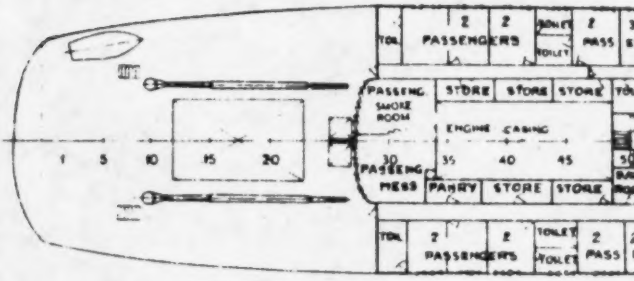
SHELTER DECK

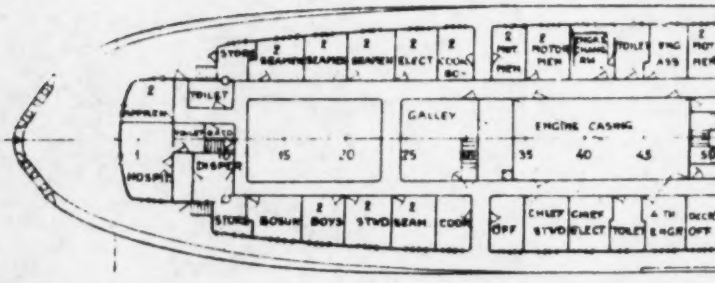


Cargo space	Grain		Bale	
	m³	ft³	m³	ft³
	3,522	124,379	3,354	118,446
	1,514	53,431	1,440	50,853
	988	34,891	912	32,207
	988	35,241	921	32,525
	62	2,189	58	2,048
	125	4,414	115	4,061
	17,885	631,600	16,900	596,819



BRIDGE DECK

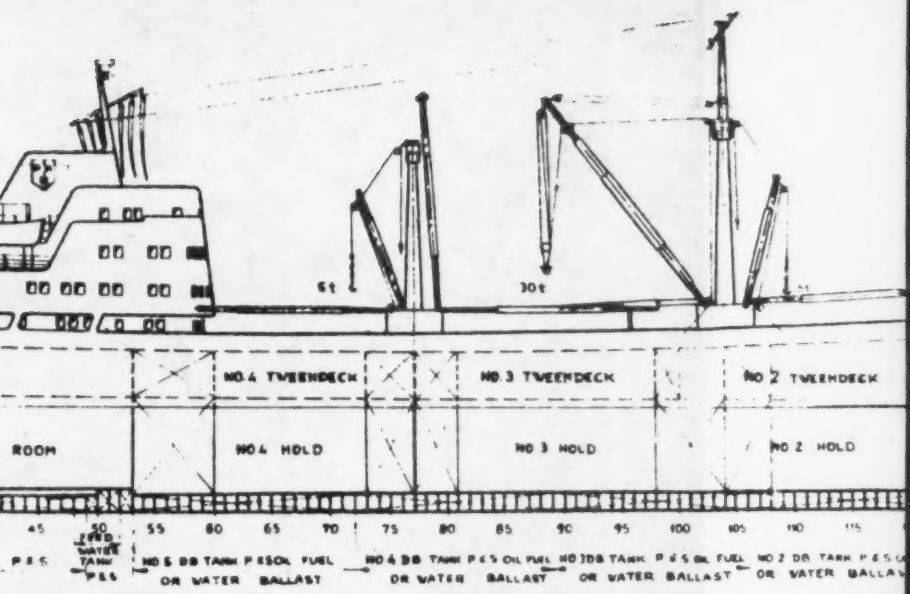




Compartment	Frames	Grain ft³
No. 1 hold	125-147	17,748
No. 2 hold	104-125	42,528
No. 3 hold	77-104	64,578
No. 4 hold	53- 77	57,610
No. 5 hold	10- 31	20,266
Total holds		202,720

General Arrangeme

51984 O - 60 (Face p. 19) No. 1



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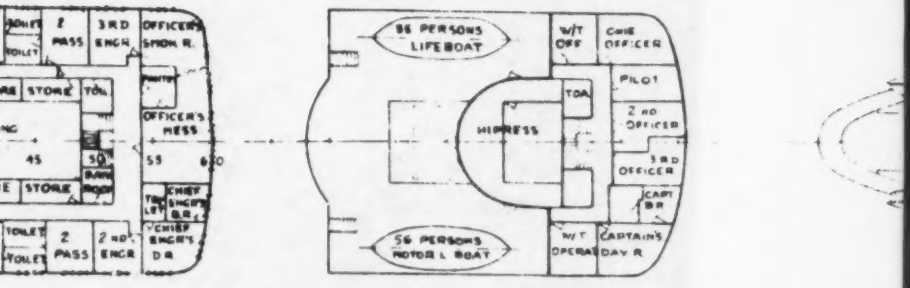
BOAT DECK

NAVIC



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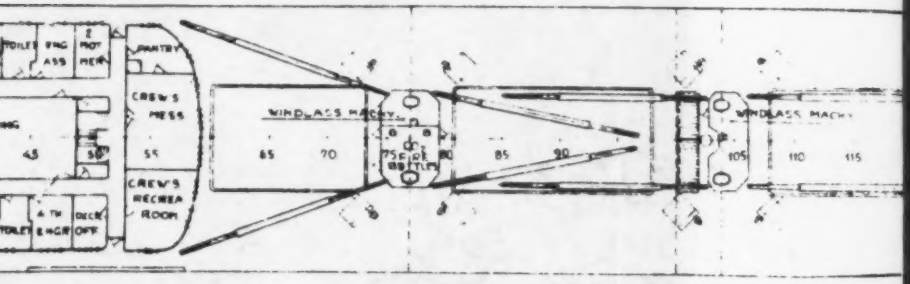
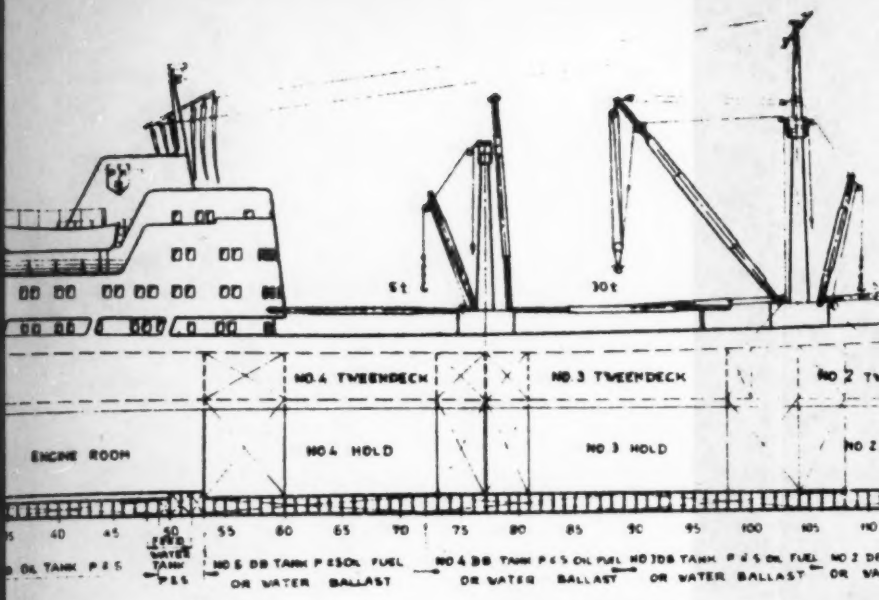


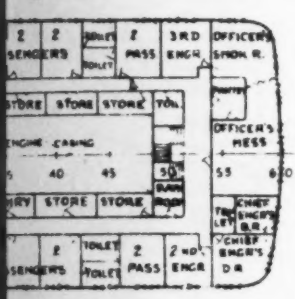
CARGO CAPACITIES

	Grain		Bale	
	ft³	m³	ft³	m³
Locker				
No. 1 'tweendecks	17,745	507	15,785	451
No. 2 'tweendecks	42,525	1,215	39,270	1,122
No. 3 'tweendecks	64,575	1,845	60,305	1,723
No. 4 'tweendecks	57,610	1,646	53,480	1,528
No. 5 'tweendecks	20,265	579	18,375	525
Total 'tweendecks	202,720	5,792	187,215	5,349
Grand Total				

rangement Plans of the "Krynica", one of the 6,000-ton-class Standar



DECK



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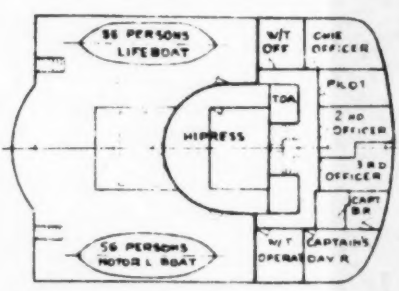

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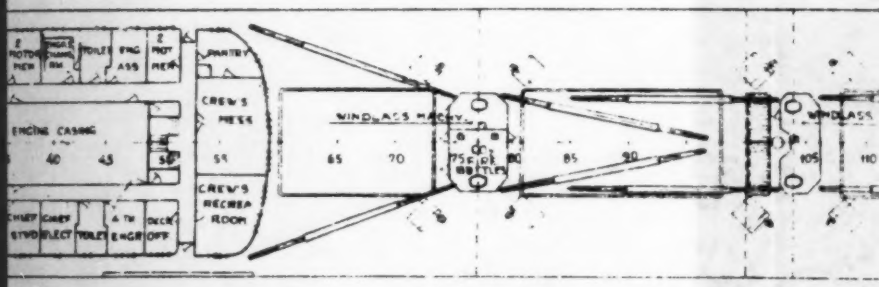


CARGO CAPACITIES

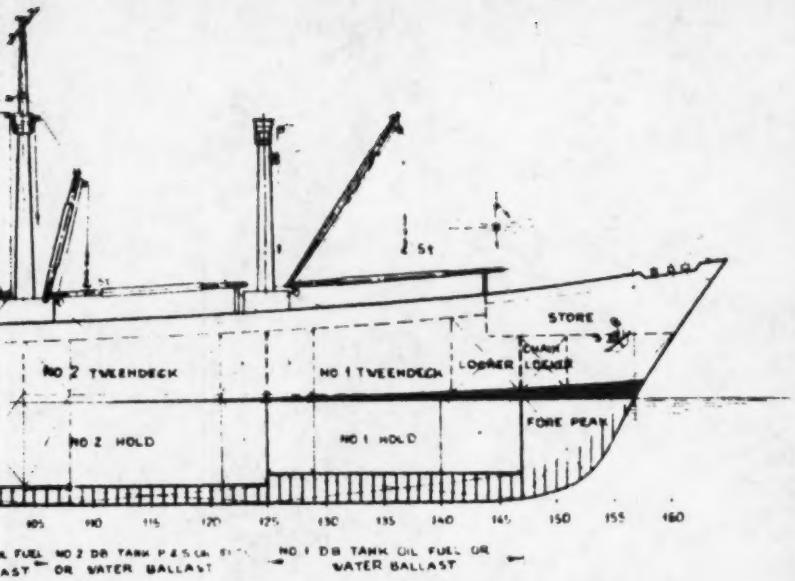
...ches	Grain		Bale	
	ft³	m³	ft³	m³
...147	17,745	507	15,785	451
...125	42,525	1,215	39,270	1,122
...104	64,575	1,845	60,305	1,723
...77	57,610	1,646	53,480	1,528
...31	20,265	579	18,375	525
	202,720	5,792	187,215	5,349

Locker
No. 1 'tweendecks
No. 2 'tweendecks
No. 3 'tweendecks
No. 4 'tweendecks
No. 5 'tweendecks

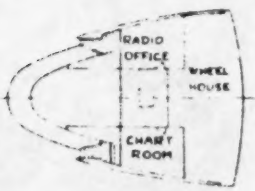
Total 'tweendecks

Grand Total

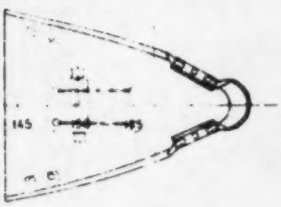
...ral Arrangement Plans of the "Krynica", one of the 6,000-ton-class S...

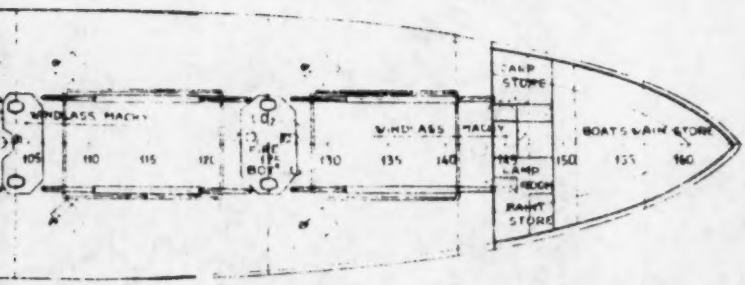

STORE
CHAIN LOCKER
NO 2 TWEENDECK
NO 1 TWEENDECK
LOBBER
NO 2 HOLD
NO 1 HOLD
FORE PEAK
105 110 115 120 125 130 135 140 145 150 155 160
NO 2 DB TANK P & S
OR WATER BALLAST
NO 1 DB TANK OIL FUEL OR WATER BALLAST

NAVIGATION BRIDGE



FORECASTLE DECK





	141	147	4,060	116	3,675	105
	125	141	19,110	546	17,430	498
	104	125	32,165	919	30,100	860
	77	100	32,690	934	30,765	879
	55	77	33,985	971	31,850	910
	10	31	23,170	662	21,910	626
			145,180	4,148	135,730	3,878
			347,900	9,940	322,945	9,227

-class Standard Ships.

The gearbox is of the simple spiral bevel wheel and pinion type, the gearbox output shaft, therefore, lying at right angles to the turbine shaft. Accessory gears driven from the gearbox drive a constant-speed governor, overspeed safety shut-off, and fuel and lubricating oil pumps. For hand-starting, a 70:1 step-up assembly of sprockets and chains is used, driving through a sprag-type clutch on the gearbox main shaft. A magneto to provide the initial combustion spark is driven during the period of cranking. Electrical starting may be specified, however, thus reducing the hand-starting time of about 20 seconds by half.

Including the gearbox and accessories the dimensions of the Mars turbine are 22 inches high, 17 inches wide and 24 inches long. Fitted with a fire pump capable of delivering 500 gallons per minute of water at 100 pounds per square inch pressure the weight of the whole unit is 172 pounds. An output of 30 kilowatts is claimed for a.c. or d.c. generators which may be direct- or belt-driven from the gearbox and, as the motive power for rotary air compressors, up to 200 cubic feet of air per minute at 100 pounds per square inch may be delivered. As the illustrations show, this is a compact unit, and being of a light weight it should find ready marine application.

Activity at a Hong Kong Dockyard

The Taikoo Dockyard & Engineering Co., of Hong Kong have recently completed the sixth Doxford-type engine in the series building for new China Navigation Co. tonnage. Of standard Doxford diaphragm design with timed injection the engine will develop 4,450 brake horsepower at 115 revolutions per minute and has been installed in the Taikoo-built "*Kweichow*" of 6,500 tons deadweight cargo which was launched at Hong Kong in January. This ship and the six other vessels in the "K" class for the China Navigation Co., from Taikoo Dockyard, differ from the earlier "C" type ships on several respects but chiefly in that refrigerated cargo space has been arranged in No. 4 'tweendeck, about 24,200 cubic feet being available for the carriage of frozen meat, chilled beef, and fruit and dairy produce. J. and E. Hall of Dartford have supplied all the Arcton 6 compressors and ancillary refrigerating equipment for these ships which, together with the insulation, were installed by the shipbuilders.

Other work undertaken by the Taikoo Dockyard includes the installation of air conditioning plant in the Royal Interocean Lines vessels *Tjiluwah* and *Tjiwangi*. A total of 48 Comfair cabin units and a completely packaged liquid chiller were supplied by Bronswerk N.V., of Amsterdam, who designed the installation. The bulk of the work of installation was carried out during short visits while the vessels were at buoys in the harbor. The two ships maintained their regular sailing schedules throughout.

The Ingalls Shipbuilding Corp.,
Pascagoula, Miss., December 29, 1959.

Mr. Frank A. Nemec,
Senior Vice President, Lykes Bros. Steamship Co.,
New Orleans, La.

Dear Frank: I have your letter of December 22 and, as requested, I am enclosing three copies of my letter of May 8, 1958 to Mr. Solon Turman, attached to letter of the same date to Mr. Clarence G. Morse, Administrator, Maritime Administration, to which is attached a tabulation of worldwide bidding, covering construction of liner type vessels for the Argentine merchant fleet and the Dodero Lines of Argentina, together with a digest of the specifications for comparative purposes.

I hope soon to be in position to give you a tabulation of worldwide bidding on several types of merchant vessels for the Chinese Steam Navigation Co., which will give you the latest Japanese and European prices on dry cargo vessels of 5,500, 10,500 and 15,000 tons deadweight.

With kindest regards and best wishes for the New Year, I am,

Sincerely,

Monro B. Lanier,
Vice Chairman of the Board.

THE INGALLS SHIPBUILDING CORP.,
Pascagoula, Miss., May 8, 1958.

Subject: European quotations on cargo vessels.

Mr. SOLON B. TURMAN,
President, Lykes Bros. Steamship Co.,
New Orleans, La.

DEAR SOLON: I am enclosing copy of my letter of this date to Mr. Clarence G. Morse on the above subject.

We were invited to bid on each of three cargo vessels of similar specifications to yours and Moore-McCormack with, of course, variations, for the Argentine merchant fleet and a duplicate invitation for the Dodero Line. We declined to bid in competition with Europe on seagoing vessels. We can only compete on towboats and vessels of that type which cannot cross the Atlantic under their own power.

My letter to Mr. Morse gives the comparison of the principal characteristics of the Argentine specifications with yours and those of Moore-McCormack.

I am attaching hereto the digest of the voluminous specifications, which digest was made by the Maritime construction representative at Pascagoula for Mr. L. C. Hoffmann, Chief of Ship Construction of Maritime, who is now abroad studying foreign costs. I am also attaching the tabulation of bids on which comments are made in my letter to Mr. Morse.

I hope that this will be of some service to you and if there is any other information that you desire, I will be glad to have you call upon me.

With kindest regards, I am,

Sincerely,

MONRO B. LANIER.

THE INGALLS SHIPBUILDING CORP.,
Pascagoula, Miss., May 8, 1958.

Mr. CLARENCE G. MORSE,
Administrator, Maritime Administration,
Washington, D.C.

DEAR MR. MORSE: Mr. L. C. Hoffmann, before leaving for Europe, requested that I obtain a tabulation of the bids on each of three 10,600-ton deadweight tons cargo ships of the *Rio* class of the Argentine merchant fleet and the Dodero Line of Argentina. A copy of the tabulation is appended hereto, with prices expressed in terms of U.S. dollars, based upon the rate of exchange applicable to the several foreign currencies as of April 2.

We gave Mr. Rowell a digest of the specifications, which he has forwarded to Mr. Hoffmann. The following comparison with the specifications of the Moore-McCormack and Lykes Bros. new cargo vessels is interesting:

	Argentine	Lykes Bros.	Moore-McCormack
Length (blueprint)	471 feet	470 feet	458 feet.
Beam	64 feet	69 feet	68 feet.
Depth to weather deck	40 feet	41 feet 7 inches	41 feet 6 inches.
Draft	27 feet	29 feet 6 inches	28 feet 6 inches.
Shaft horsepower	8,750 (Diesel)	9,000	11,000.
Total deadweight	10,500 to 11,000	11,000	10,460.
Reefer cargo	60,000 cubic feet	None	None.
Complement (passengers)	12	12	12.
Special features	Cargocaire: all holds; air conditioning: public spaces, passengers and crew quarters.	None	None.
Lifeboats and davits	Welin	Welin	Welin.
Fire extinguishing	Walter Kidde	Walter Kidde	Walter Kidde.

Taking into consideration debits and credits in specifications, the Argentine vessels, if built in the United States, would probably cost more than the average of the low-bid prices of the Lykes and Moore-McCormack vessels, due to the inclusion of diesel propulsion, Cargocaire, and air conditioning of all spaces in the Argentine vessels.

In the tabulation there are approximately 32 prices listed from 11 different European countries. Apparently all did not bid exactly in accordance with the

specifications in respect to the horsepower of the diesel engine, which is specified at 8,750. According to our representative, the variation was from 6,500 horsepower to 9,000 horsepower. The bids called for delivery in Buenos Aires and hence the cost of transportation of the vessels from Europe to Buenos Aires and the return of the crew is included in the prices quoted, which I cannot evaluate.

In the tabulation there are a number of notations with which I am unfamiliar and the names of the yards are not clear.

Each of the bids was submitted by an Argentine representative, the name being shown immediately following the name of the yard. This is required by the Argentine Government. In each case a commission is included in the bid price, which is generally around 5 percent of the base price.

Country of bidder	Yard	Diesel engine	Price, U.S. dollars	Delivery
Yugoslavia	Not stated	Fiat	$3,676,000	1961–62
Denmark	Helsingor Shipyard	B&W	4,080,000	1961–62
Yugoslavia	Not stated	Sulzer	4,131,900	1961–62

The intermediate range in the order of price is very close, as follows:

Country of bidder	Yard	Diesel engine	Price, U.S. dollars	Delivery
Sweden	Kockum's	MAN	$4,670,000	1959–61
Germany	Ottensener	B&W	4,700,000	1960
Denmark	Burmeister & Wain	B&W	4,730,000	1960–61
France	Chantiers Naval de la Ciatat	B&W	4,775,000	1959–61
Italy	Cantiere del Mediterranean	Fiat	4,780,000	1960–61
Holland	Stichting Central	B&W	4,790,000	1960–61
Germany	Howalt Werke Hamburg	MAN	4,810,000	1960–61
France	Forges et Chantiers de la Mediterranean.	Sulzer	4,842,000	1959–60
Sweden	Oscarshamn Stockholm	MAN	4,950,000	1960–61
Great Britain	Atlantic Shipbuilding Co		5,030,000	1959–60
Germany	Blohn & Voss	MAN	5,030,000	1959–61
Do	Stulken	B&W	5,070,000	1962–63

It will be noted that the higher group of bids were from Great Britain, with one higher bid from Holland.

It will be observed that omitting the lowest and highest group of bids, the average bid of the intermediate group, covering 12 bids from yards of 10 countries, is less than one-half of the American bid prices on the Lykes and Moore-McCormack vessels for each of three ships.

If there is any further information that I can give you, please do not hesitate to call upon me.

Yours very sincerely,

MONRO B. LANIER,
Vice Chairman of the Board.

Flota Mercante del Estado—Argentina

Proposal for construction of 1 to 6, 10,500 deadweight tons "Rio" class of FME cargo vessels, length BP 471 feet, beam 64 feet, depth 40 feet, draft 27 feet, bids opened Mar. 31, 1958

Country	Bidding yard	Units each of	Main engine	Bid price including spares equivalent U.S.-dollars	Delivery
Denmark	Burmeister & Wain (Dinaco, Baires)	3	874 VTBF 160 B & W	$4,730,000	December 1960–December 1961.
	Helsingor Shipyard (Bertel Skou & Lehman, Jun.).	3	1062–2VTBF 140–B & W	4,080,000	If accepted immediately 2 ships in 1959; in other case 1961, 1962.
France	Forges et Chantiers de la Mediterranen (Eximia, BA.).	3	Sulzer 6 RD76	4,842,000	22, 24, 26 months A.S.C.
Do	Chantiers Naval de la Ciatat (Cia Tec. del Plata).	3	Fiat 759S Sulzer 7RD76 B & W 874 VTBF 160.	4,775,000	November 1959, August 1960, December 1960.
Holland	De Schelde (L. Glastra)	3	Sulzer 8RD76	5,430,000	August 1960, December 1960, June 1961.
	Van Giesen & Sons (L. Glastra)	1	Sulzer 8RD76		December 1960.
	A. Vuyk & Sons (L. Glastra)	1	Sulzer 8RD76		September 1961.
Germany	Lubecker Flender W. (Ferromar)	3	MAN	5,250,000	May 1960, June 1961, August 1961.
Do	Howalt Werke, Hamburg (Delfino & Co.)	3	MAN K8Z 78/140	4,810,000	September 1960, December 1960, March 1961.
Do	Blohm & Voss, Hamburg (Comacin)	3	MAN K7Z 78/140	5,030,000	19, 30, 33 months.
Do	Ottensener, Hamburg (Conferro)	3	B & W 874VTBF160	4,700,000	March 1960, May 1960, July 1960.
Do	Weser W. Seebeck (Caveca)	3	Krupp B & W 874VTBF160	5,050,000	August 1959, January 1960, June 1961.
	Alternative for	6	Krupp B & W 874VTBF160	4,980,000	2 each August 1959, January 1960, June 1961.
Do	Howalt Werke, Kiel (Alacero)	3	Not indicated	5,420,000	1962–63.
Do	Stulken (Udrich Co.)	3	B & W	5,070,000	August 1962, October 1962, April 1963.
Great Britain	Carmel Laird (Evans, Thorton Co.)	3	Sulzer 8RD76	6,620,000	April 1961, December 1961, February 1962.
			Id. English	6,520,000	
			MAN K9z 78/140	6,400,000	
Do	Fairfield Shipbuilding (Somarfin)	3	Sulzer	6,025,000	September 1962–January 1963.
Do	Atlantic Shipbuilding Co. (H. Meziat)	3		5,030,000	December 1959, every 6 months after.
Canada	Vickers (Leng, Roberts Co.)	3	Fiat G58S	6,900,000	January 1960, August 1960, November 1960.
Belgium	Cockerill (Eiffe)	3	B & Wain	5,247,000	October 1960, June 1961, August 1961.
Italy	Cantiere del Mediterranean	3	Fiat	4,780,000	1° medium 1960, every 6 months.
Do	Cantiere Naval Riuniti (Rosetti)	3	B & W	5,130,990	22 months, 27 months, 31 months.
Do	Cantiere Naval dell' Adriatico (Cosulich)	3	Fiat	5,350,000	Medium 1960, every 6 months.
Sweden	Kockum's (Brander Clo)	3	MAN	4,670,000	Refrigerator hold and 155,000 SnCr. December 1959, May 1960, August 1961.
Do	Oscarshamn, Stockholm (Cooper Bros.)	2	MAN K9z 78/140	4,950,000	April 1960, April 1961.
Yugoslavia	3 Maj Rije ke (Saifak)	3	Sulzer	4,131,900	October 1961, March 1962, June 1962.

Same bidders as for above for FANU (Dodero Line)

Holland	Verholme Unit Shipyard (FIAIAyCia)	3	MAN 10z 70/120	$5,400,000	Medium 1960, 1961, 1962.
Do	Stichting Central (Lucas Glastra)	3	MAN 9z	4,990,000	
	do	3	MAN 8z	4,960,000	August 1960 to October 1961.
	do	3	B & W	4,790,000	
	do	3	Sulzer	4,840,000	
Yugoslavia	Brodograde liste split	3	C 759 S-9cy one. Fiat	3,676,000	January 1961, September 1961, May 1962.

The ships are to be built foreign for the Administration General de la Flota Merchante del Estado of Argentina.

The ships are shelter deckers, with accommodations for 12 passengers, and the following general characteristics:

XXXXX	512 feet.
Length below Plimsoll	471 feet.
Molded beam	64 feet.
Depth at side	40 feet.
Depth to Bhd Dk	31 feet.
Draft	27 feet.
Deadweight tonnage	10,500 to 11,000.
Sea speed	16 knots.
General cargo	52 cubic feet per ton.
Reefer cargo	76 cubic feet per ton.
Reefer cargo capacity	60,000 cubic feet.
Reefer eg	29 cubic feet per ton.
Deep tanks	500 cubic meters each.

Complement: 1 captain, 2 pilots, 2 harbor pilots, 2 radio operators, 4 mates, 1 chief engineer, 4 assistant engineers, 1 electrical engineer, 6 engine gang, 1 electrician, 1 yeoman, 2 mechanics, 8 sailors, 1 A.B., 1 carpenter, 1 boatswain, 1 steward, 2 nurses, 1 dishwasher, 1 cook, 1 assistant cook, 1 chef, 1 head waiter, 7 waiters, 1 scullery man, 12 passengers, 1 owner (76 in crew, 13 others—total of 89).

The vessel to be classified by Lloyd's Register of Shipping, L. B. S., or Bureau Veritas.

Self-propelled model test for hull lines required.

Inclining, trim diagram, hydrostatic curves, stability curves, and cross curves required.

Materials: Generally to classification society specifications and approved methods.

Plans—Approval: Regulatory bodies and owner.

Construction to classification societies' rules. Rolled plate stern. Rudder of Simplex or Sebeck-xxxxx design, as determined by model basin self-propelled test.

Weather deck hatch covers MacGregor quick-acting steel.

Pontoons on passenger deck—wood covers below. O. T. steel covers over deep tanks a ft. Special care to avoid structural discontinuities and compensation for openings.

Heat insulation and tagging—magnesia.

Reefer cargo, and ship's stores.

Reefer cargo 60,000 cubic feet granulated cork-wood sheathing—ratproofed. Air-cooled double duct system.

"Stone" windows in deckhouse. One-quarter inch to 1 foot scale exhibition model required.

Rigging to British Factory Act Register.

Masts and booms "Mannesman" or Union Metal. Method of calculation of stresses—Union Metal. Eight 5-ton, eght 8-ton, one 35-ton.

Electric cargo winches—Clark-Chapman or Trigs-Siomons. Eight ⅗-ton, eight ⅜-ton; two 2-ton cranes. Two electric capstans—8 tons at 35 m/m.

Steering gear: Hydroelectric—Brown or Bastie, or electric-Siemans or A. E. G.

Bitts and chocks: To meet Panama Canal regulations.

Anchor, chain cables: D. Lock or equal.

Lifeboats: Welin or equal. To suit International Convention—Electric Boat winches. 2 Fleming hand gear 42-person, 2 diesel 25-person.

Davits: Fleming or similar. 2 balsa rafts, 1 catamaran.

F.O. deep tanks in machinery space.

Deep tanks—edible oil—1,000 cubic meters.

L.C. service tanks—30 cubic meters.

Potable water tanks—25 tons each P/B—Fr. 49–53, main deck to upper deck on shell.

Wash water tanks—in D.B.—250 cubic meters.

Double F.W. system—General service and potable water.

Drains—Storm valves.

Firemain—Salt water—bronze valves—galvanized pipe.

Pneumicators.

Walter Kidde—Carbonic acid fire extinguisher to American Underwriters—S.O.L.A.S.

Cargocaire—Cargo holds, trunk to reefer cargo deep tanks.

Air-conditioning and heating and vent saloons, passenger area, officers' and crew.

Ventilation—Mechanical exhaust—Gailey, S.C., baker, hospital, individual bathrooms.

Reefer cargo—3 electric (250/400 rpm) compressors, 3 condensers, 3 evaporators, 3 salt water circulating pumps, 4 freon pumps—Freon-12—Hall, Carrier, York, Worthington.

Ship's stores: Meat, −10° C; fish, −12° C; ice and butter, −3° C; thaw room, 8° C—Hall, Carrier, York, Worthington.

Thermometers: Brown electric to suit Bureau of Entomology U.S.

Paint: Normal. Owner's selection of colors. Silver Primocen—Apexior on shell.

Cementing—F.S. tanks—Fore peak and aft peak for drainage.

Accommodations: Wood panelling, furniture, and case goods throughout.

(*a*) Furniture, carpets, curtains, tapestry, objects of art, silverware, china, crockery, glass, passengers and crew—owner's approval.

Passenger and officer spaces decorated by Argentinian artist.

(*b*) Wood linings: Some stained and varnished; some painted.

(*c*) Deck covering: Passengers and officers—Rubber tile, Semtex underlay; crew spaces—linoleum, Semtex underlay.

(*d*) Hospital, baths, toilets—Mosaic tile, cement underlay.

(*e*) Lobbies—Wood ceilings, removable panels for access to valves, unions, etc. Passenger and officer area deck—rubber tile, underlay. Main deck—Linoleum, underlay. Galley, pantries, etc.—Mosaic tile, cement.

(*f*) Painting: To owner's approval.

(*g*) Doors—Joiner, wood; outside, teak. Yale locks. Grip shields for outside doors. Passenger and officer tableware—German silver, silver plated, stainless steel blades to knives. China—Passenger and officer with lines, colors, and markings, marked to suit owner.

Hospital: Normal equipment.

Machinery: (1) One direct connected main diesel engine; (2) Four generators; (3) Pumps for various services, air compressors; (4) Auxiliary boiler with economizer; (5) Air tanks starting, oil tanks, piping, silencers, etc.

Mechanical injection, direct reversible—Burmeister and Wain—Fist—M.A.N.—Sulzer—with necessary auxiliaries. May use turbo superchargers of Napier or Brown-Baveri type. A complete plant for use of Bunker C in main engine. Purifiers, clarifiers, etc. 10 percent over requirements on tailshaft. Forged steel shafting—Biemans Martin.

Propeller first quality—Stone—Darlington—manganese bronze or Lips.

Power: The power developed by the main engine shall give a service speed of 16 knots at 80 percent normal rating. RPM between 110/114 per minute. Fuel rate to be figured on diesel oil 0.9 density. Calorific value not less than 10,000 cal/kg with not over 1 percent asphalt.

Lube oil consumption not over 1.5 gr/c.v. per hour.

Lubrication: Sight feed—Beach or equal—to owner's approval.

Electrically driven vertical lube oil pumps—Drysdale or Izo.

L.O. coolers: Serek or Rose.

L.O. filters: Double magnetic—Philips or Autoclean.

L.O. purifiers: De Laval or Titan—4,000 lts./hr.

Main engine circulating fresh water pumps centrifugal—electric—vertical—Drysdale, Worthington, Weir. One standby.

Salt water circulating pump—electric—Drysdale, Worthington, Weir.

Fresh water coolers: Serek.

Two electric pumps centrifugal for main engine—one standby. Two electric pumps centrifugal for auxiliary engine—one standby.

Starting air tank: Steel—13 m^3 capacity at 30 kg./cm^2. 30 starts main engine. For starting generators—3 bottles of 150 lts. capacity at 30 kg./cm^2.

Air compressors, electric—Brother Hood or Weir—300 m^3 at 30 atmospheres.

Emergency air compressor: 30 kg/cm^2 to fill auxiliary starting bottles in two hours.

Service air compressor: 7 kg/cm^2.

Diesel generators—four—Burmeister & Wain, Fiat, M.A.N., or Sulzer. 375/400 rpm—8 cyl or 5 cyl (8 cyl—300/320 KW, 230V—compound wound; 5 cyl—185/200 KW, 230V—compound wound). Diesel oil driven.

Emergency diesel generator—40 KW, 220V, 750 rpm—Ruston & Hornsby, Russel Newberry.

Oil purifiers—Two electric pumps—Izo.

Vertical auxiliary boiler with economizer—Todd burner—burning diesel oil—Cochran or Clarkson—capacity 7 kgs/cm².

Two electric feed pumps—one standby for auxiliary boiler.

Hotwell tank—atmospheric condenser.

Evaporator-distiller—Caird & Rayner or Weir—10 tons per 24 hrs.

Waste heat boiler—main engine—La Mont, Cochran, Clarkson. Auxiliary motors, silencers, expansion joints.

Ballast pump—One 250 tons per hour. Electric. Drysdale or Weir.

General service pump—One electric. Drysdale or Weir. 20-meter head—120 tons per hour; 60-meter head—80 tons per hour.

Fire pump—electric.

Fresh water and sanitary pumps—electric: Two F.W.—10 tons per hour, 50-meter head; two S.W. sanitary—10 tons per hour, 50-meter head; one to be used as standby; two potable water pumps—electric—5 tons per hour, 45-meter head.

Hot fresh water pump—Two electric—3 tons per hour, 10-meter head.

Fresh water pump—electric. Drysdale or weir.

F.O. transfer pump—electric. Ime or equal. 40 tons per hour.

F.O. transfer pump—electric. Ime. 10 tons—35 meter head.

Edible oil pump—electric. 80 tons per hour, 60-meter head.

Oil and water separator—Comyn or equal.

Two deep tanks settlers—25/30 tons.

Daily service tanks: (1) Main engine—13 cubic meter capacity—2 sections; (2) Auxiliary Engine—4 cubic meter capacity—2 sections; (3) Boiler—1.5 cubic meter capacity.

F.O. filling—200/250 tons per hour.

Engine room ventilation: Four axial flow fans—Axia Fan, Thermotank—electric motors—640 cubic meters per minute—25 meters water.

Fire extinguishers.

Alarms.

Monometers.

Thermometers and pyrometers.

Engine telegraph and voice tubes.

Whistle—Super Tyfon Kockums—air electric siren.

Insulation—Magnesia. Temp. moderate—expanded cork—fibre glass.

Pipes and valves.

Ladders and gratings.

Foundations.

Engine room cranes—7-ton, 2-ton.

Machine shop: Normal equipment.

Storerooms.

Log desk.

Instruction books—10 copies.

Electrical

To classification society—generator plant: two 310 KW D.C.—220/230 V; two 195 KW D.C.—220/230 V; one emergency generator—40 KW—220/230 V D.C.

Two converters to A.C. 220 V—25 KW—50 cycles.

Fluorescent lighting—20 or 40 watt.

Alternating current: (*a*) Engine telegraph—50 V; (*b*) high-frequency antenna; (*c*) water coolers; (*d*) radio.

Alternate generator plant—Siemens-Schuchert or A.E.G. 3-phase A.C.—220/380 V—50 cycle: power circuits—380 V; fluorescent lighting—220 V; hand lamps—42 V. Two diesel—310 KVA—220/380 V—50 cycle; two diesel—195 KVA—220/380 V—50 cycle; one emergency diesel—40 KVA—220/380 V—50 cycle.

Switchboard.

Emergency lights.

Walter-Kidde smoke detection.

Ozmater for reefer and ship's stores spaces.

Recording thermometers for reefer cargo—Bureau of Entomology.

Cargocaire in general cargo spaces.

3- to 5-band radio
Radio-victrola—3-speed
Multicoupler antenna—passengers and officers.
Radio-telephone—Marconi—250–400 watts.
Electrical workshop.
Complete lists of allowance items and spare parts, which appear to be about double the normal amount required on N.A. ships.

Bridge deck

Wheelhouse, chart room, radio room, two radio operators (separate rooms) (2 staterooms, 2 radio operators), deck T. & S., two pilots (1 stateroom, 2 pilots).

Captain's bridge

Captain's saloon, captain's office, captain's stateroom (1 stateroom, 1 captain), captain's berth, doctor's stateroom and bath (1 stateroom), two harbor pilots (1 stateroom, 2 harbor pilots).

Officer's bridge

Smoking room, dining room, pantry (officers'); chief engineer's saloon (1 chief engineer); 1st, 2d, 3d, and 4th mates (4 mates); electrical engineer (1 electrical engineer); 1st, 2d, 3d, and 4th engineers (4 assistant engineers); steward (1 steward); 5 private T. & S, 3 interconnected T. & S.

Passenger deck

Lounge and bar—entrance hall; four 2-passenger staterooms, 4 baths, four 1-passenger staterooms, 4 baths (12 passengers); dining room—pantry; owner's stateroom and bath.

Poop house top

Crew's lounge, carpenter's shop—laundry.

Upper deck—forward

Boatswain's stores, paint room—lamp room, windlass resistor room, storeroom, blacksmith shop.

Upper deck—midship

Officer and crew dining rooms, 3 pantries, canteen, hospital—2 nurses (1 stateroom), 2 engine (1 stateroom), 2 engine (1 stateroom), 2 engine (1 stateroom), 2 engine cleaners (1 stateroom).

Crew washroom and toilet—8 sailors (4 rooms), 1 A.B. (1 room).

Steward's office, galley—bakery stores—1 dishwasher (1 stateroom), 1 cook and assistant (1 stateroom), 1 yeoman and 1 electrician (1 stateroom), 2 mechanics (1 stateroom), 1 engineer's office, 2 T. & S., 1 carpenter (1 stateroom), 1 electrician (1 stateroom), 1 boatswain (1 stateroom), 1 chef (1 stateroom), 1 head waiter (1 stateroom).

Main deck

7 waiters, 1 scullery man, 1 T. & S. (4 staterooms).

Recap of staterooms (27 single, 22 double)

Bridge deck, 3 staterooms (2 single, 1 double); captain's bridge, 3 staterooms (2 single, 1 double); officers' bridge, 11 staterooms (11 single); passenger deck, 8 staterooms (4 single, 4 double), 1 stateroom—owner (1 single); upper deck—midship, 19 staterooms (7 single, 12 double); main deck, 4 staterooms (4 double).

Senator MAGNUSON. Thank you.

Mr. Henry.

Mr. HENRY. I will do the same as Mr. Nemec.

Senator MAGNUSON. We will put your whole statement in the record.

(The statement referred to follows:)

STATEMENT BY J. J. HENRY, PRESIDENT, J. J. HENRY CO., INC., NAVAL ARCHITECTS

SHIPBUILDING COSTS, AMERICAN AND FOREIGN

Construction differential subsidy rates

The recent history of construction differential subsidy (CDS)[1] rates granted by the Federal Maritime Board shows a significantly rising tendency. This is illustrated by the following table showing average of all CDS rates granted during recent years.

Year	Number of contracts	Average CDS rate (percent)
1955 and 1956	4	43.2
1957	4	43.8
1958	6	49.1
1959	3	[1] 50.0

[1] Statutory limit. Findings of the Federal Maritime Board show 2 of these contracts in excess of 50 percent.

The CDS rates calculated for new dry cargo liner vessels only are shown on chart No. 1. The rates calculated by the Federal Maritime Board show a generally rising tendency during the past 3 years, and in two recent cases exceed the statutory limit of 50 percent. As noted on the chart, certain of the CDS rates are tentative, since the foreign construction costs were estimated on a fixed price basis, whereas the domestic contracts were placed subject to escalation. In those cases, the Federal Maritime Board has estimated escalation and has fixed a tentative CDS rate. The final CDS rate will not be known until the vessels are delivered. No ships have yet been delivered under any of the contracts covered by the chart.

Since fixed price U.S. bids were also quoted on these contracts, it is possible to examine the construction differential rates which would have occurred if fixed prices were used for the calculation. The resulting values are shown on chart No. 2. If the U.S. shipyards' assessment of escalation is accurate, as represented by the low-bid fixed-price values used in this calculation, the construction differential rates would be significantly higher than those calculated by the Federal Maritime Board.

Further, if the owners' independent estimates of foreign cost were used to calculate construction differentials, the CDS would also be somewhat higher than the findings of the Federal Maritime Board shown on chart No. 1.

However, regardless of which method of calculation is used to examine cost relationships, it is obvious that the construction differential rate has increased in recent years.

There are many complex factors and influences which can be expected to affect domestic versus foreign shipbuilding prices in the future. It is our firm conviction that the price gap will continue to widen in the immediate future. The fundamental considerations which support this conclusion are covered in the following paragraphs.

[1] "Construction differential subsidy" rate can be defined by the formula:

$$\% \text{ CDS} = \frac{\text{U.S.A. Bid} - \text{Estimate of Foreign Cost} \times 100}{\text{U.S.A. Bid}}$$

Domestic versus foreign shipbuilding cost comparison

Studies of costs in prominent foreign shipbuilding centers during the past 3 years have revealed consistently that Japan and Germany are the low cost major shipbuilding centers of the free world. There is every indication that these nations will continue in this position for the immediate future. On occasion, other nations do undersell both Japan and Germany.[2] This has been noticeable primarily in the case of Sweden, Denmark, and Holland and, to a lesser extent in respect to France and Italy. However, because of productive capacity and competitive production and pricing practices, I believe that the general world-wide price level will be established by German and Japanese shipyards in the foreseeable future. There are reasons to believe that the Japanese may enjoy some basic price advantage in this competition; however, it is unlikely that they will consistently sell below the level established by their closest competitor—Germany. Accordingly, the bulk of this analysis is devoted to the situation in these two countries.

Shipbuilding cost comparisons

While a great deal of general knowledge pertinent to the shipbuilding cost differential question may be obtained from price comparisons, such data must be analyzed carefully. Due to the wide range in the quality of vessels built abroad, as well as the many other factors which influence prices, only limited conclusions can be drawn from unanalyzed price comparisons. Somewhat better indications can be expected from periodic pricing of essentially identical vessels, as illustrated in chart No. 3.

As a result of the CASL program, we have collected considerable data which permits us to make comparison of domestic and foreign costs. A representative current example is shown in the following table No. 1, which gives dollar values for major categories of shipbuilding cost items, consisting of material, labor, overhead and engineering, for a high class cargo liner vessel, for which competitive bids have been received in the United States, and carefully detailed estimates have been prepared in both Japan and Germany.

TABLE 1.—*Domestic versus foreign shipbuilding cost comparison, 1959 (high class cargo liner vessel)*

	United States		Germany		Japan	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Material	$6,700,000	52	$4,500,000	75	$4,500,000	75
Labor	2,900,000	22	600,000	10	500,000	8
Overhead	2,600,000	20	800,000	13	900,000	15
Labor and overhead	5,500,000	42	1,400,000	23	1,400,000	23
Engineering	800,000	6	100,000	2	100,000	2
Labor, overhead and engineering	6,300,000	48	1,500,000	25	1,500,000	25
Total net cost	13,000,000	100	6,000,000	100	6,000,000	100

NOTE.—The above represents a typical current cost distribution of a Mariner-type vessel. To the extent possible, all profits both conventional and hidden have been removed from these prices so that the values are essentially representative of true costs. For simplification, numerical values have been rounded out in this table.

[2] The Communist shipbuilding countries, i.e.: Poland and Yugoslavia, can and do underprice all nations of the free world. CDS based on these countries would range between 60 and 65 percent. Heretofore, such prices have not been considered by the FMB.

Table No. 2 illustrates the relationship of the dollar cost of each item in the foreign prices to the corresponding domestic price.

TABLE 2.—*Approximate cost relationships*

	United States	Germany	Japan
Material	1.00	0.67	0.67
Labor	1.00	.21	.17
Overhead	1.00	.31	.35
Labor and overhead	1.00	.25	.25
Total net cost	1.00	.46	.46

Due to the depressed condition of shipbuilding markets at the present time, actual selling prices contain little if any profit, both here and abroad, and the prices shown in the tabulation are therefore representative of current selling prices.

Since there are widely varying practices in respect to labor and overhead timekeeping and accounting methods in different yards and different nations values have been included in the tables for the subtotals of labor and overhead costs. This combined value represents the major portion of the total productive effort or cost over which the shipbuilding industry exercises direct control. The material portion of the cost in large measure represents purchased items such as boilers, turbines, gears, heat exchangers, pumps, diesel engines, etc.

The values shown in tables Nos. 1 and 2 are illustrated graphically in chart No. 4.

Basic observations regarding cost relationships

The overall cost picture illustrated above shows that Japan and Germany are capable of building identical vessels of this type at a cost of approximately 46 percent of U.S. cost at the present time. (The corresponding construction differential rate is 54 percent.)

Historically, the wide disparity between the domestic and foreign prices has been due to labor costs (or labor plus overhead). Foreign material costs amount to approximately two-thirds of U.S. material costs whereas foreign labor costs are in the vicinity of one-fifth (one-fourth for labor plus overhead) of the corresponding domestic values.

All other things being equal, it would be expected that material costs would bear a closer relationship to wages (representative of the general industrial wage level) earned by the laborer. However, in the case of basic materials such as steel and copper, which are the major material components in shipbuilding, world market prices have been very comparable. In the case of specialized manufactured products, the smaller than normal differences in prices has been due primarily to the more advanced industrial development and to the wealth of natural resources of the United States.

DETAILED EXAMINATION OF COST RELATIONSHIPS

Labor

The relationship of current wage rates is shown in the following table.

Wage rates plus overhead

Country	Approximate wage rate per man-hour	Approximate ratio	Comparable overhead rate	Approximate wage rate plus overhead per man-hour	Approximate ratio
			Percent		
United States	$2.70	1.00	90	$5.13	1.00
Germany:					
Hamburg area	.65	.24			
Bremen area	.58	.21	133	1.35	.26
Japan	[1].45	.17	180	1.26	.25

[1] Rough year-round average including allowance for conventional midyear and yearend wage bonus.

The foreign wage rates shown in the table are specific values obtained in connection with a very recent ship pricing program undertaken in Japan and Germany.

The overhead rates are those shown to be realistic when varying estimating practices in respect to direct and indirect labor accounting methods are reduced to a common basis.

A comparison of the historical trend of hourly earnings in the three countries is graphically shown in chart No. 5. It can be observed that there has been a diverging trend in the relationship of U.S. to foreign labor costs.

From the above examination of labor rates and average hourly earnings, we conclude that—

(1) foreign wages are increasing at a rate essentially equal to or greater than in the United States;

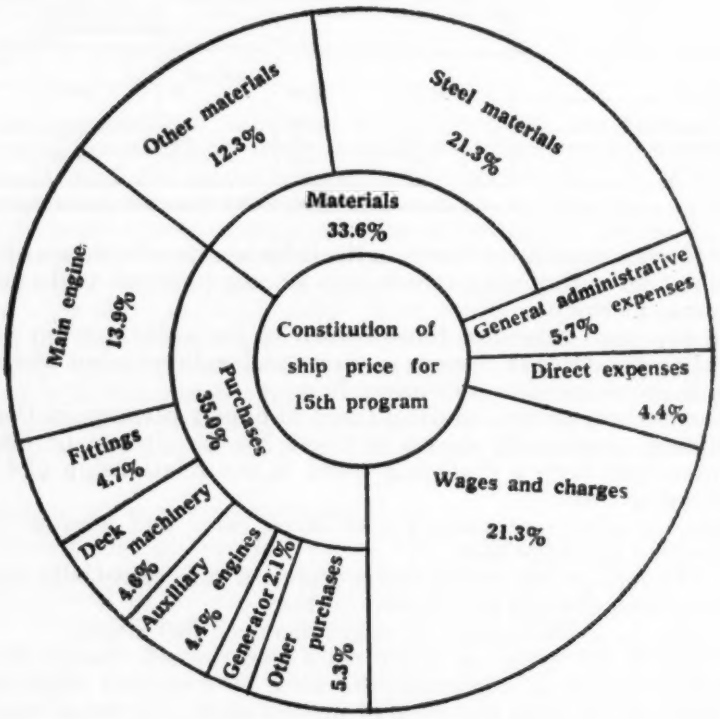
(2) the dollar spread in wages has been increasing;

(3) if the trend of labor rates experienced during the past several years is continued, the price of American ships will increase faster than the price of foreign ships. If would take very substantial increases in foreign wages to reverse this trend.

There are many strong arguments which point to some stabilization of foreign wages. Labor in Japan and Germany appears to be reasonably well satisfied with the progress made since the war in improving their economic status. While human nature can probably be expected to demand ever-increasing benefits, the present oversupply of ships, together with the still-increasing world shipbuilding capacity, probably will serve as a retarding factor on foreign shipbuilding wages for several years to come, even though the general expansion in industrial development should continue abroad.

Material costs

As previously pointed out, about 75 percent of the total foreign shipbuilding costs are represented by purchased materials. The following chart, printed in a recent issue of a Japanese (English language) newspaper, indicates the distribution of costs for Japanese-designed vessels being constructed under Government sponsorship:



Ship Prices for 15th Shipbuilding Plan

Materials purchased include both mill products and manufactured components. As shown on chart No. 6, steel prices have fluctuated in both Germany and Japan but recently have approximated the U.S. prices. This condition is likely to continue in the future. It is even conceivable that steel prices will become lower than U.S. prices, as is the case in the United Kingdom.

With respect to the finished components—propulsion machinery, deck winches, steering gears, etc.—the differences in price between U.S. and foreign manufacture varied from item to item but the general price level has not been widely separated from the U.S. level. The greater demand for such items by foreign shipbuilders has tended to improve manufacturing processes and skills to the extent that this disparity between prices of items as compared with U.S. components is disappearing. Further, due to this greater demand and the im-

proved manufacturing facilities, the influence of the much lower foreign labor rates should have a greater effect and the spread between foreign and U.S. components should increase.

There are indications that due to a combination of factors the price gap between American and foreign material and component costs will increase rather than narrow in the foreseeable future. Some of the reasons for this are noted below.

(1) Together with other wealthy nations, we have sponsored economic growth, including industrial development, with all nations of the free world.

(2) Economic unions (i.e., the Euromart, the Outer Seven, etc.) have been formed among foreign countries which strengthen their ability to produce cheaply and to compete in international markets.

(3) There has been a general economic awakening in foreign nations since the war which has been engendered by the existence of a vast international demand for industrial products.

(4) It is now necessary for the United States to import vast quantities of raw materials which were heretofore available at home in ample supply.

(5) Many bombed-out foreign manufacturing plants had to be rebuilt completely after the war and, in the process, were provided with ultramodern equipment and facilities. The volume of orders obtainable in recent years has encouraged improved machinery and productive processes.

The effects of these developments are clearly noticeable. The United States has lost its dominant position in many international markets. In order to retain some reasonable share of these markets, many domestic producers have found it necessary to participate directly in foreign production through licensing arrangement, capital investments in foreign industries, construction of plants abroad, and consolidation with foreign manufacturers.

There can be little doubt regarding the ability of foreign nations to continually improve their pricing position in competition with the United States. Likewise it appears that U.S. prices generally will continue upward.

The gap between U.S. and foreign prices for shipbuilding materials and components should broaden in the foreseeable future, and the effect should be to increase the construction differential rate for cargo liner vessels built in the United States.

There are many related economic factors which, when considered jointly, serve to support and strengthen the opinions expressed above. Several of these are covered in the following section.

EXAMINATION OF RELATED ECONOMIC FACTORS

World shipbuilding capacity

The capacity of the shipyards throughout the world has been expanding at a rapid rate during the past few years. Between January 1, 1956, and December 31, 1958, this physical capacity has increased by 23 percent. By the end of 1961, if presently underway or announced expansion programs are completed, the capacity will have

been expanded by another 13 percent, as is shown in the following table:

TABLE 3.—*World shipbuilding capacity, oceangoing vessels*

[In thousand gross tons]

Area	1956	1957	1958	Percent increase, 1956–58	1961	Percent increase 1958–61
Scandinavia	1,068	1,235	1,411	33	1,550	10
Northwest Europe	2,038	2,222	2,483	22	3,000	21
United Kingdom	1,918	1,997	2,100	10	2,350	12
Mediterranean	732	773	856	17	950	11
United States and Canada	750	750	820	9	850	4
Far East	2,077	2,521	2,882	39	3,250	13
Total	8,583	9,498	10,552	23	11,950	13

Source: Westinform Shipping Report No. 122.

In 1960, there will be a radical drop in foreign shipyard utilization due to a reduced backlog of orders.

The United States had only about 7½ percent of the world capacity at the end of 1958. The expansion in the United States is at a much slower rate than has been experienced in other areas of the world.

Throughout the world at the end of 1958 there were approximately 760 construction berths capable of handling vessels over 300 feet in length. Of these, 145 could handle vessels over 650 feet long. By this yardstick, the U.S. relationship is more favorable—our country has about 11 percent of the total berths and 13 percent of the berths over 650 feet long. However, it is estimated that by 1961 these relationships will change to about 8 and 12 percent, respectively.

Shipyard facility improvements

In Germany, Scandinavia, and Japan shipyards have been modernized and production facilities improved at a very rapid rate during recent years. In most cases this improvement has resulted in improvement of yard facilities and has not involved the adding of new building berths. We have seen also the same type of improvements being made in this country; but not to the same degree as in foreign nations.

New ideas and equipment have been introduced into shipbuilding techniques. Improved steel fabrication techniques have lowered the required man-hours per ton of steel fabricated. Larger cranes, lifting up to 100 ton or larger hull sections have made it possible to fabricate more of the ship's hull away from the overcrowded building berths. Some foreign shipyards are now installing production line methods for the complete ship. The Germans have led the way in introducing new ideas and techniques into shipbuilding methods, i.e., optical layout and cutting. Their methods are being copied worldwide.

The entire basis for this expansion in foreign countries has been caused by the availability of orders at a price that would allow for capital investments and by governments that fostered the shipbuilding activity as part of the national industrial effort.

In the early 1950's Japan and Germany were just getting back into the shipbuilding field. In 1950 Japan launched 10 percent of the world tonnage while Germany's share was less than 5 percent. In 1958 this relationship to world output became 22 percent for Japan

and 15 percent for Germany. In 1950 the United States launched approximately 12 percent of the ships launched in the world. This relationship dropped to 8 percent in 1958. The relationship of ships built for export by each country is shown below:

[Percent]

	1950	1958
Japan	5	28
Germany	1	19
United Kingdom	23	8
United States	20	8

In the foreseeable future worldwide shipbuilding berths available for liner construction will increase with a resultant lowering of prices.

Improvement in labor skills

As can be noted from the previous analysis, the expansion of foreign shipbuilding has been rapid in the two most competitive countries—Germany and Japan. This has involved the training of large work forces. In the early 1950's the employment per ton of steel fabricated was very high. As the workers learned their skills—welding, fabricating, assembling, etc.—these hours dropped radically. Today, these workers are as efficient as U.S. workers.

As an indication of this improvement involving skills and facilities, the Nagasaki shipyard of Mitsubishi Shipbuilding & Engineering, Japan, has improved the hull building efficiency for an 11,800 deadweight-ton cargo ship by 20 percent between the beginning of 1956 and early 1959. Similar increases in efficiency have been noted in other shipyards both in Japan and Germany.

Immediately following World War II the shipbuilding supporting industries in Japan and Germany were small and inefficient. Now both countries have highly developed supporting industries. On the early ships built in these countries, most of the machinery components were imported from the United States or United Kingdom. Now they produce their own machinery equipment at a lower cost than can be obtained in the United States.

U.S. ship-price trends

As shown in chart No. 3 the price of new Mariner-type ships has dropped about 10 percent in the past 2 years. This drop has been due to competitive conditions in our domestic industry in order to obtain the much needed and scarce work. Further, it can be seen that the drop has occurred even though labor and steel prices have gone up.

U.S. shipbuilding prices did not rise during and after the Suez crisis in the speculative manner as did the prices in foreign countries. The principal reasons for this are: (1) On Government work, the accounts are audited; (2) the building capacity was not overbooked so the shipbuilders were still trying to get more work; (3) shipyards bid on many orders with the low bidder getting the work—no negotiating period; and (4) the American yards' prices were already the highest in the world.

It is not likely there is much leeway left in U.S. bids for further reduction. If material and labor costs rise still further, the shipbuilders will have to raise their bid figures or make some cost absorptions. While the competitive situation may even result in lower prices in the near future, starting from today's figures, on a long-term basis there is only one way for U.S. ship prices to go—and that is up.

Future shipbuilding orders

The present slump in ocean cargoes has created an oversupply of ships with a resultant sharp drop in freight rates. As of October 16, 1959, the laid-up tonnage of ships was:

Type	Number	Gross tons
Dry cargo vessels	852	4,686,978
Tankers	464	4,745,973
Total	1,316	9,432,951

This is the highest to date except for May and June 1959 which were slightly higher. There has been a slight improvement in the utilization of dry cargo ships. The peak of unemployment of these latter ships was reached in June 1959 with 1,004 ships laid up.

This slump in ocean transportation has also increased the tonnage of vessels going to shipbreakers. Starting in mid-1957, the number of ships being sold for scrap increased at a rapid rate with old and inefficient ships being removed from the world fleets.

Even with the scrapping of old tonnage there is still a large surplus of ships. Most shipping interests believe that this condition will continue for several years. However, owners with substantial financial backing are still ordering ships when and where they can make a favorable contract. A 44,000-deadweight-ton tanker was recently ordered in Germany at a cost of $124 per deadweight ton by an American-controlled firm. This same ship, if contracted for in 1957 at the peak of the post-Suez crisis, would have cost between $200 and $225 per deadweight ton. In another case, a German shipyard has offered to construct a sister ship to one ordered in 1956 which cost about $3,643,000 for about $2,833,000 now. This is a 22-percent reduction in cost to the owner. These two cases illustrate the point that foreign owners can get and are taking advantage of the current low shipbuilding prices.

Between March and October 1959 there were 20 ships with a deadweight of 265,840 tons ordered by foreign companies in Japan with an estimated value of $68,110,000. During the same period, contracts for nine vessels of 314,200 deadweight tons and a value of $60,854,000 were canceled.

Order books are unstable in Japan and also other countries. Contracts have been delayed, type and number of ships changed, etc. Therefore, it is next to impossible to give an accurate assessment of the order backlog in any country. Various figures are quoted. They indicate that deliveries in 1959 will be high but not as substantial as in 1958. After 1959, the workload drops off rapidly. This is what is causing the great concern in foreign shipbuilding circles.

As of January 1, 1959, the order backlog in several of the leading shipbuilding countries as compared to January 1, 1958, was:

Country	1959		1958	
	Number	Gross tons	Number	Gross tons
Great Britain	442	5,372,706	616	6,759,295
Germany	358	4,192,755	517	5,425,235
Japan	199	3,784,110	296	5,079,780
Sweden	196	3,078,920	250	3,758,885
United States	75	1,536,300	93	2,172,412

While there have been some new orders and there have been many cancellations, it is not believed that there has been a gain in order backlog in any country, rather there has been a sharp decrease. From this tabulation and comparison with table No. 3, the critical nature of the shipbuilding industry in most foreign countries is easily seen.

New orders are scarce. Owners are negotiating with shipyards for good ships at extremely low costs, and in my opinion foreign prices will decrease further.

Cost relationships

The U.S.-flag operator is faced with competition that is impossible to meet on an equal footing when the quality—thus the capital cost—of his ships is considered. His competitor is carrying cargoes on ships that cost considerably less, even with construction subsidy. The relationship of capital investment per ton-mile of cargo carried is approximately as follows:

Capital investment per ton-mile

Owner	Dead-weight tons	Horse-power	Speed	Cost	Dollars per ton-mile
Hansa Line	12,000	11,000	17.5	$3,452,000	$16.42
Nippon Yusen Kaisha (Japan)	11,700	12,000	18.0	3,850,000	18.25
American Mail	14,925	17,500	20.0	6,150,000	20.60
Pacific Far East	14,020	17,500	20.8	6,850,000	23.50
American Export	13,065	10,600	18.5	5,555,000	23.00
Lykes Bros	11,340	9,000	17.5	5,050,000	25.40
Moore-McCormack	12,381	11,000	18.0	5,250,000	23.60
Mississippi	13,065	10,600	18.0	4,990,000	21.20

These figures show that the U.S.-flag operator, when using the Maritime Administration's allowed foreign construction cost and without providing for escalation, is at a serious disadvantage in meeting foreign competition.

These foreign ships serve the shipper just as well as do the U.S. ships—they deliver cargoes in good condition on schedule. This difference is only partly due to the higher quality required in a U.S. ship. In any of the above cases where the Maritime Administration's foreign cost exceeds the 50 percent subsidy level, the owner is further penalized.

The qualities required in American ships are not all due to owner's preference. The U.S. Coast Guard, Maritime Administration, seamen's unions, Federal regulations, etc., all add qualities that are expensive and are not required in many foreign-flag vessels.

An example of the type of ships competing with U.S. liners on major trade routes is illustrated in the reproduction of two pages from a Japanese shipyard bulletin attached at the end of this testimony. These ships, built under the yearly Japanese shipbuilding programs, were contracted for at the following prices:

Fiscal 1957, 13th program	$4,875,000
Fiscal 1958, 14th program	3,585,000
Fiscal 1959, 15th program	3,530,000

These vessels are roughly comparable to U.S. vessels costing $10 million or more.

CONCLUSIONS

Based on my many years of experience in shipbuilding and extensive studies of shipbuilding costs both here and abroad, I feel that the costs of ships being built abroad have definitely dropped below 50 percent of the U.S. cost. Further, in the future this spread in prices will continue to widen. This may not be true in all cases but will be in the majority of instances. Basically, this disparity in costs, if the 50 percent CDS ceiling is maintained, will make the position of the U.S. shipowner more acute and will reduce his opportunity for survival.

CHART 1

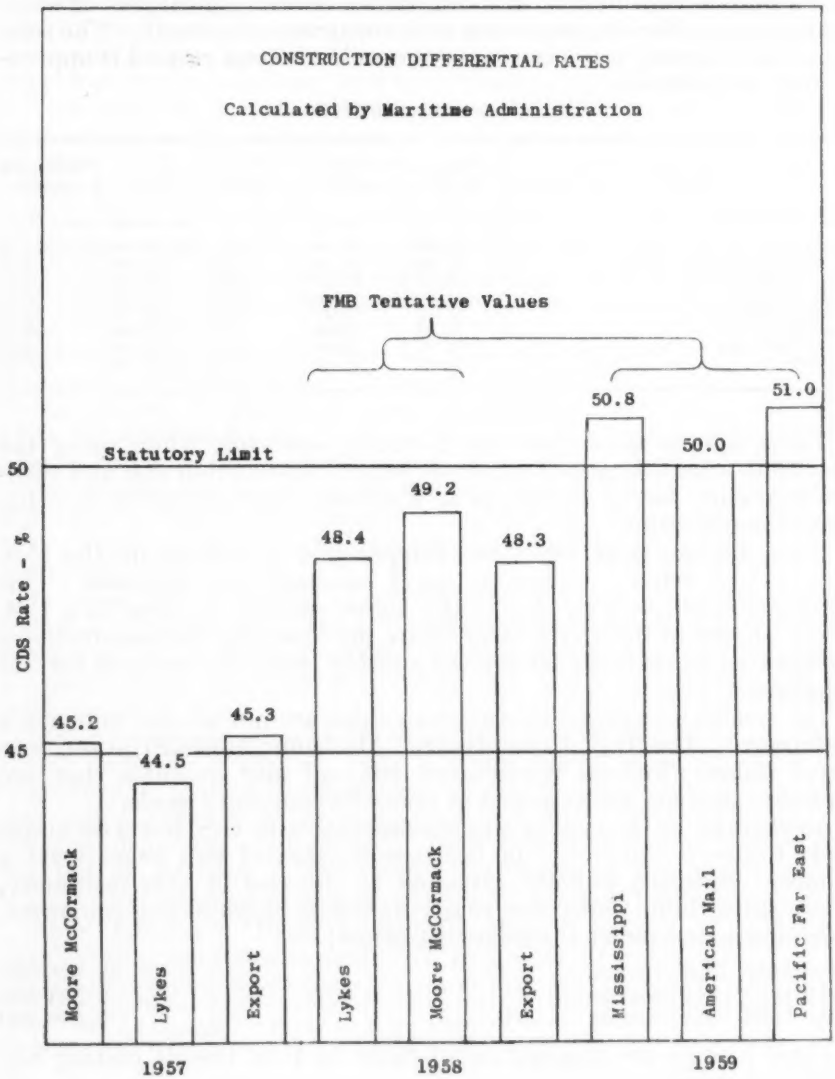


CHART 2

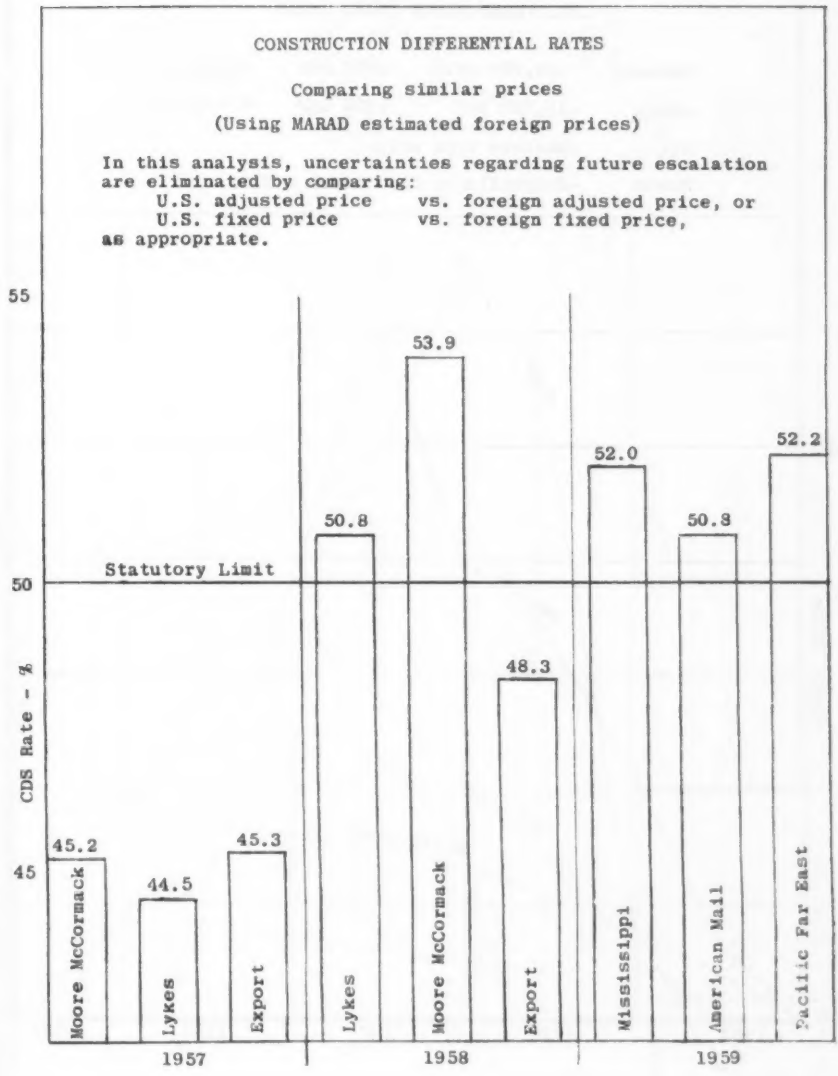

CONSTRUCTION DIFFERENTIAL RATES
Comparing similar prices
(Using MARAD estimated foreign prices)
In this analysis, uncertainties regarding future escalation are eliminated by comparing:
U.S. adjusted price vs. foreign adjusted price, or
U.S. fixed price vs. foreign fixed price,
as appropriate.
55
50
45
CDS Rate - %
Statutory Limit
45.2
44.5
45.3
50.8
53.9
48.3
52.0
50.8
52.2
Moore McCormack
Lykes
Export
Lykes
Moore McCormack
Export
Mississippi
American Mail
Pacific Far East
1957
1958
1959

CHART 3

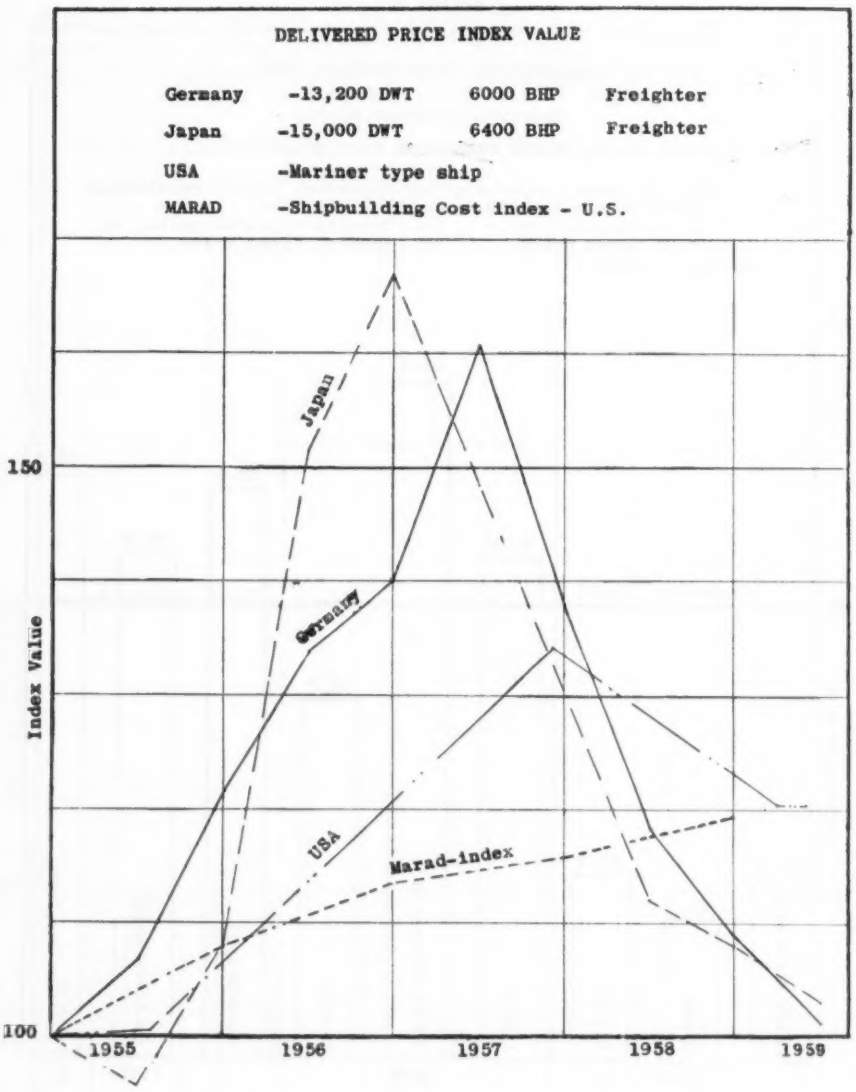


CHART 4

CHART 4

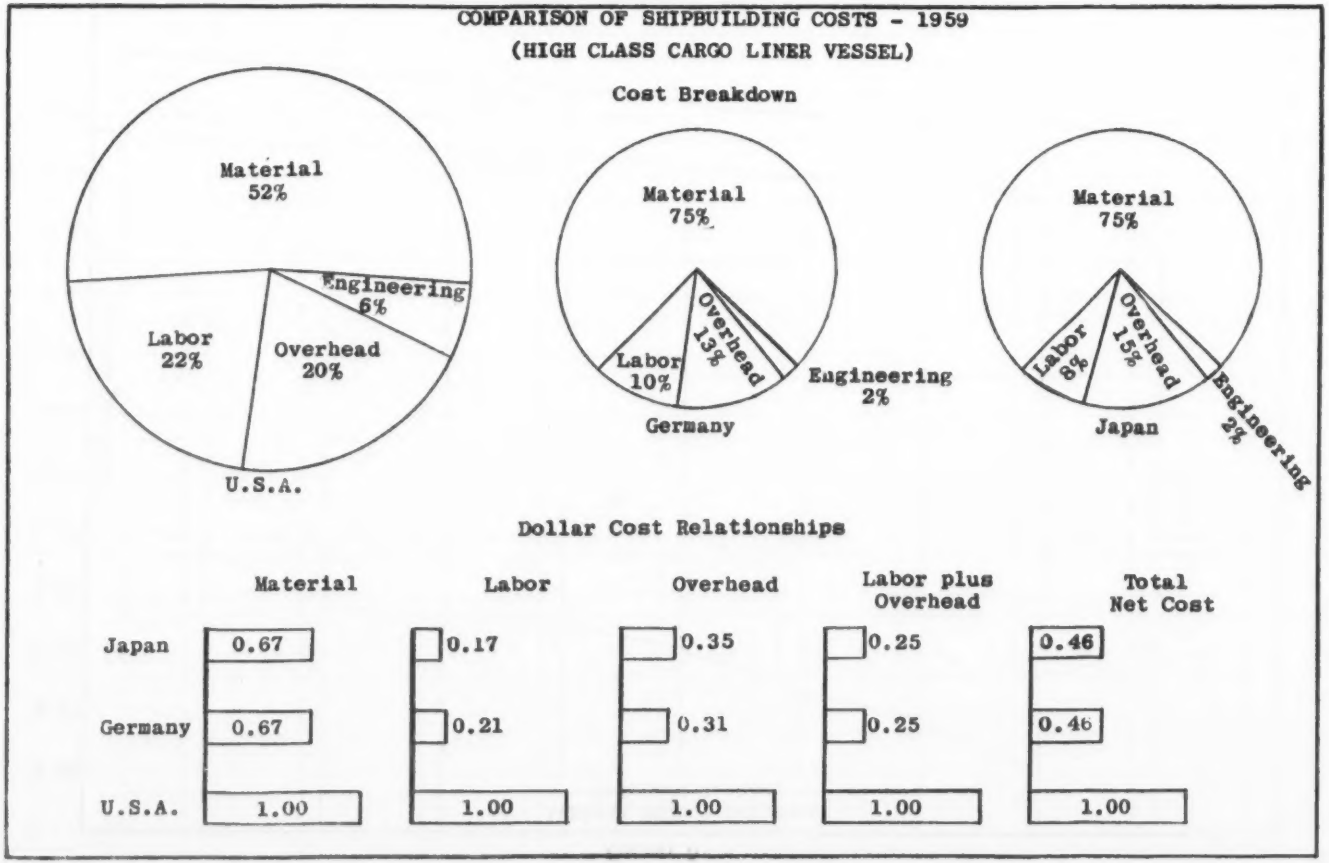

COMPARISON OF SHIPBUILDING COSTS - 1959
(HIGH CLASS CARGO LINER VESSEL)
Cost Breakdown
Material 52%
Engineering 6%
Labor 22%
Overhead 20%
U.S.A.
Material 75%
Overhead 13%
Labor 10%
Engineering 2%
Germany
Material 75%
Labor 8%
Overhead 15%
Engineering 2%
Japan
Dollar Cost Relationships
Material
Labor
Overhead
Labor plus Overhead
Total Net Cost
Japan 0.67 0.17 0.35 0.25 0.46
Germany 0.67 0.21 0.31 0.25 0.46
U.S.A. 1.00 1.00 1.00 1.00 1.00

CHART 5

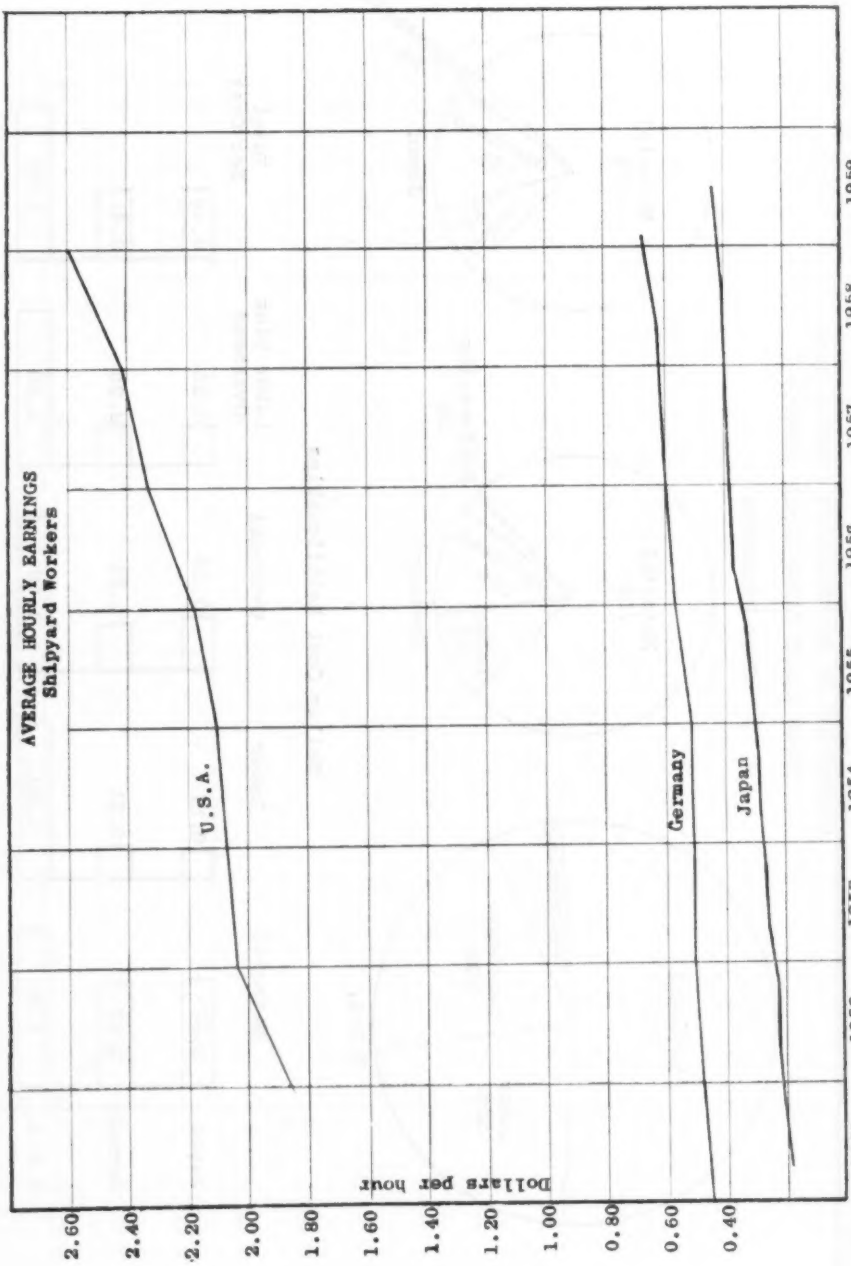
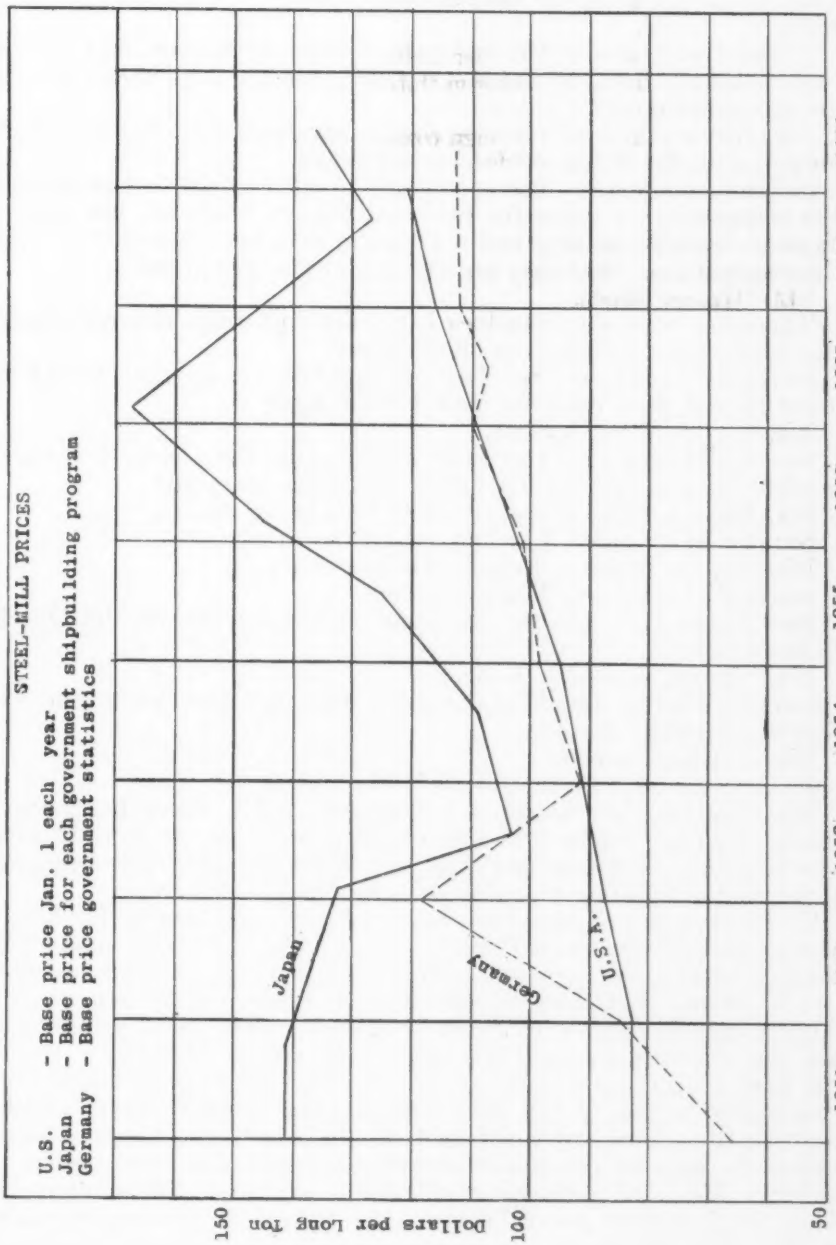

AVERAGE HOURLY EARNINGS
Shipyard Workers
U.S.A.
Germany
Japan
Dollars per hour
2.60
2.40
2.20
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
1951
1952
1953
1954
1955
1956
1957
1958
1959

CHART 6

STEEL-MILL PRICES

U.S. - Base price Jan. 1 each year
Japan - Base price for each government shipbuilding program
Germany - Base price government statistics

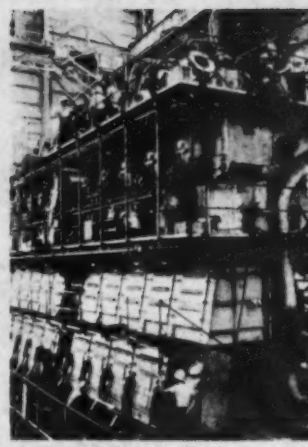


Six Swift Sisters of Hitachi's Birth

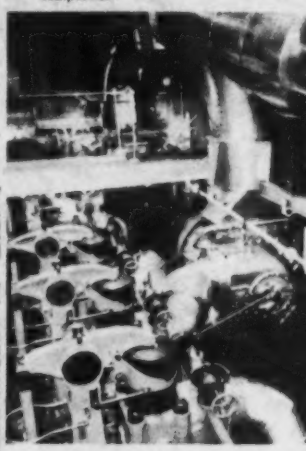
With their new flags flying high on the mastheads, two Hitachi's-built fast cargo liners have left our shipyard for New York on their maiden voyage.

The one was the 12,701-dwt YAMATAKA MARU which was completed on August 8 this year at the Sakurajima Shipyard for the Yamashita Steamship Company Limited, and the other was the 12,650-dwt SHIGAHARU MARU built at the Innoshima Shipyard and delivered to the Shin-nihon Steamship Company Limited on August 28.

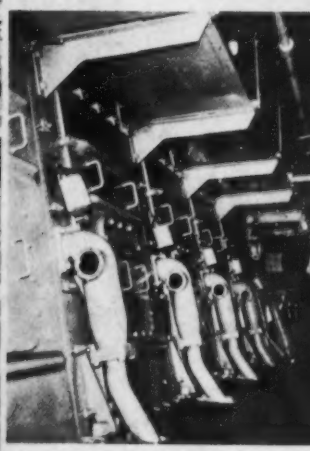
Both of them are of the same type and each has been installed with the Hitachi B&W 1074-VTBF-160 Diesel Engine as its main engine which can develop about 21 knots at full speed. We have been building fast cargo liners installed with our Hitachi B&W Diesel Engines with maximum speed of over 20 knots and these two were the fifth and sixth ones of these types already completed at our shipyards.



A 12,500 BHP diesel engine nearing completion



Overlooking cylinder heads



Interior of engine room

51984 O - 60 (Face p. 44)

ngine nearing

er heads

e room

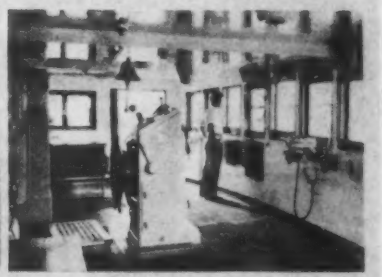
PRINCIPAL PARTICULARS

Length (over all)		156.55 m.
Length (b. p.)		145.00 m.
Breadth (moulded)		19.60 m.
Depth (moulded)		12.40 m.
Designed Load Draught (moulded)		9.28 m.
Deadweight		12,650 K. T.
Gross Tonnage	about	9,300 T.
Cargo Capacity (bale)	about	17,200 cub. m.
Maine Engine	HITACHI B&W Diesel Engine (Turbo-charged) 1074-VTBF-160 type	1 set
Continuous full output		12,500 B. H. P.
Speed (trial)		20.5 knots
Classification		NK : NS* & MNS*
Ship Type		Flush Decker with Forecastle

Farewell to the shipyard !

Mounting of main engine

View of saloon



Interior of navigation bridge

YAMATAKA MARU, the youngest of the six

Senator MAGNUSON. I think probably we could help a little bit here by asking—I know one question I would like to ask, and you could point out to me the details of the situation that I am concerned with.

I was always under the impression, right or wrong, that foreign costs had been rising in the past 6 years, ship for ship; would that be a correct statement?

Mr. HENRY. Foreign costs rose at a very rapid rate, but have been very drastically falling over the last 2 years.

Senator MAGNUSON. Just speaking generally, would that be because the competition, I mean the fact that foreign yards are not getting as much building as they had during the peak period, and, therefore, the competition—that they are quoting at cheaper prices?

Mr. HENRY. Right.

There has been a tremendous expansion in foreign shipyard facilities, and a very serious drop-off of orders.

Senator MAGNUSON. So they are quoting prices that would be lower than a previous price 3 or 4 years ago?

Mr. HENRY. That is right.

Senator MAGNUSON. Our costs at the same time haven't changed much? As a matter of fact, they may have gone up?

Mr. HENRY. Our basic costs have been going up.

Senator MAGNUSON. Causing the greater spread?

Mr. HENRY. Right. I think this first chart——

Senator MAGNUSON. You can go on.

Now, what costs are the Maritime Board now using, the Dutch, Holland costs?

Mr. NEMEC. Japanese, basically.

Senator MAGNUSON. The Japanese costs are now what you say they are basically using?

Mr. NEMEC. Correct.

I think you will be interested in the charts.

Mr. HENRY. As you can see from the chart, there has been a steadily rising construction-differential percentage, or subsidy rate, which, expressed in another way, has been widening the difference in the cost of building a similar ship, foreign versus here.

The first group of blue bars represent the 1957 awards for Moore McCormack, Lykes, and Export. They have the approximate percentage rate of 45 percent. The second group in 1958 included Lykes, Moore McCormack, and Export, again. Here you see the subsidy rate has raised to 48 or 49 percent. The third group blue, are the 1959 awards of Mississippi, American Mail, and Pacific Far East. All three of these have reached at least 50 percent and have exceeded it in two of the three cases. On the right chart, another point is illustrated by the fact that the Maritime Administration makes the subsidy determinations on the basis of an adjusted price with the Maritime estimate of what the escalation will actually be. Now, the first three groups, again, 1957, were done on this basis, and at that time foreign shipyards were also taking primarily escalated contracts. The second group in 1958 occurred at the time when foreign shipyards had already started changing over to fixed-price contracts at the demand of the purchaser. In 1959, the foreign shipyard would be taking fixed-price contracts almost exclusively, again at the demand of the purchaser.

Senator MAGNUSON. What do you mean by "fixed price"?

Mr. HENRY. The contract price would be fixed and determined at the signing of the contract.

Now, by comparison, the adjusted-price contract would fix the final delivered price for the ship on the current basic price, subject to an increase in price for raising wages or material costs.

Senator MAGNUSON. Is that where the escalation clauses come in?

Mr. HENRY. Yes.

Senator MAGNUSON. Doesn't it escalate downward?

Mr. HENRY. Not recently.

Senator MAGNUSON. What you say, by the charts, is that the foreign yards are now—in the last year or 16 months, are using a fixed price?

Mr. HENRY. Right; and also the chart shows, you will notice the red and blue are quite similar except the red is showing a regular penetration of the 50-percent subsidy rate. The red actually shows what the comparison of the fixed price, American bid, would be to the fixed price, foreign bid, instead of the adjusted price, with the Maritime estimate of what the delivered price of the ship would be 2 or 3 years from now.

Mr. NEMEC. The figures which you see in blue, at least five or six of them, in the last 6 years, are purely estimated differentials. They included the Maritime's estimate of the delivered price of that ship. We have good reason to believe, however, that those estimates are low; so, in effect, the rates are not as they are portrayed, but will be substantially higher when those delivered costs are in. Finally, we have good reason to believe, in 1959, in the case of Lykes and Moore McCormack, that both of the differentials will exceed 50 percent when the ships are delivered, and in both of those cases, at least in the case of Lykes, we believe that the fixed-price contract will be very close to the actual adjusted price contract plus escalation—after the ship is finally delivered. That is the way the final costs will come out, and, in order to give some value to that, to show how the shipbuilders have thought the escalation might run, the red figures are included which give their idea of escalation by including that factor in their fixed-price contract. So, it is merely to point out, basically, the Maritime's guess as to what the escalation and the differential may be are probably on the low side and subject to some upward revision.

Senator MAGNUSON. Why is that only in 1958 and 1959?

Mr. NEMEC. In the earlier year, both of them were on the adjusted form; in other words, both here and abroad contracts were being awarded subject to escalation, and the assumption is that escalation will move the same on both sides.

Senator MAGNUSON. But in the last 2 years it hasn't, and is that the reason for the lowering of their prices?

Mr. HENRY. The other thing is the complete lack of orders in the last year or two.

Senator MAGNUSON. Our costs haven't gone up much?

Mr. HENRY. The red was the shipyards' prediction, but the blue is our prediction. The final answer will not be in until the ship is delivered. There is reason to believe that the Maritime's prediction was on the low side.

Senator MAGNUSON. You have got costs running there from 1957. You've got 8 percent—in some cases haven't you an 8- or 9-percent difference? What I am trying to get at is the cost: is there a differential because the foreign yards have lowered prices 8 percent in 2 years, or have we gone up in 2 years?

Mr. NEMEC. I think the question is this: Since 1957, what has been the primary reason for the increase in differentials? The answer is foreign prices have come down greatly.

Senator MAGNUSON. Come down. I don't want the record to show our shipbuilding costs since 1957 have gone up that much.

Mr. NEMEC. I think this will clear up the point. You can see the peak that Suez brought about. This is an index figure that Mr. Henry will explain, but it is relative in effect to the base line which is used at the beginning of 1955, and it shows what the trends in world shipping prices have been.

Mr. HENRY. This chart takes a specific type of ship. In Germany it is 13,000 deadweight, 6,000 brake horsepower freighter. In Japan, 15,000 deadweight. In the United States we have taken the Mariner-type ship, and for the curve shown there is an actual shipbuilding cost which is the Maritime's index of rising costs, which as you can see is very nominal compared to the excessive rise in prices in Germany and Japan in the period from 1955 to 1956 and early 1957.

Senator MAGNUSON. That shows what we are talking about—that the fluctuation of American prices is nowhere as great as the fluctuation of foreign prices?

Mr. HENRY. As you can see, this results in a very much wider difference in costs now between the United States and the foreign countries, which is primarily due to the reduction in costs abroad.

Senator ENGLE. Why does Export Lines' calculated rate in 1958 stay the same in both charts, 48.3, whereas, all other of those six in 1958 and 1959 show a significant rise?

Mr. NEMEC. That was the only contract in that entire period that was awarded to a domestic yard on a fixed-price contract. The differential is fixed. That differential is an absolute one because the delivered price of that ship is in already. It is a fixed-price contract on the American side that went to one of your west coast yards.

Senator ENGLE. Am I correct in the assumption that these values indicated in red, which is the construction differential rates as the shipbuilding industry estimated them, if they turn out that way the company will have to reach down in its pocket and put up that 3.9 in one instance, or 0.8 in another of the extra cost?

Mr. HENRY. That is correct.

Senator MAGNUSON. Well, now, our prices dropped there, too, since 1957. About what is it, 10 percent?

Mr. HENRY. Slightly less than 10 percent.

Mr. KILLEFER. That shows that was the differential in 1955—45 percent, approximately?

Mr. POOLE. The measure of increased differential between foreign and the United States is shown at the end. In 1959, it was that much greater than it was in 1955.

Senator MAGNUSON. It could be possible—I don't think it will—it could be possible that the Government could pay even less in ship construction subsidy dollars which is under a higher percentage.

Mr. NEMEC. That is absolutely correct.

Senator MAGNUSON. Were these fluctuations that go on?

Mr. NEMEC. If both sets move down, that is correct.

Senator MAGNUSON. Which makes the percentage limitation a little bit antiquated at present-day markets. It fluctuates much more than in 1936?

Mr. HENRY. It is our position that this gap will further widen.

Senator MAGNUSON. On page 4—it's also a common question—what part do labor costs play in foreign shipyards in relation to the cost of the ship? Is it cheap labor?

Mr. HENRY. Yes, the cheap labor; cheaper labor is the primary reason in the difference in the costs. If you look at this table——

Senator MAGNUSON. Because I would think that fluctuations in the material are narrower. Some of the material is pretty much the same cost all over.

Mr. NEMEC. The mill materials, the steel plate, are basically the same. That would include nonferrous, as well as ferrous metals. However, in other manufactured and purchase items in which labor is an important factor, there is a substantial difference in cost. If you look at table No. 1 and look at the column under United States, you see an analysis of the Mariner-type vessel. In other words, this is not any specific ship contracted for, but general vessels of the Mariner type. We have given an approximate allocation of dollars in round numbers to the total cost of the ship, and the material under United States is 52 percent. The labor is 22 percent. The overhead is 20 percent. Now, a good share of overhead is also labor.

Senator MAGNUSON. Yes; and engineering is labor. I think we could get this quicker when you add up labor, overhead and engineering. This runs about 48 percent of our ship.

Mr. HENRY. Correct.

Senator MAGNUSON. The material runs 52 percent, whereas in Germany the material runs 75 percent, and what we would say, generally labor runs 25 percent, and about the same in Japan. So, therefore, we are talking about what the difference in the labor would be in this particular case, about one-fourth the cost of the ship.

Mr. HENRY. That is right.

Mr. NEMEC. That would be in general terms, again, of shipyard labor.

Mr. HENRY. Page 5, you see the approximate cost relationships between the United States, Germany, and Japan, in other words, the material cost of this specific ship. The German and Japanese material costs are two-thirds of our cost of material in that ship. However, the labor and overhead again are one-quarter our labor and overhead costs. Now, this is also illustrated a little more by the chart on page 7. There you will see the approximate wage rates, per man-hour, in the United States, Germany, and Japan; and the comparable overhead rates, and the approximate wage rate plus overhead per man-hour, and, again, you will see that this is 4 to 1 of the United States over either Germany or Japan.

Senator MAGNUSON. What do you mean by "overhead"?

Mr. HENRY. Overhead, again, is labor. Overhead is primarily labor. It also includes——

Senator MAGNUSON. Generally speaking, it runs about 4 to 1?

Mr. HENRY. Yes; on this chart.

Senator MAGNUSON. I don't suppose you have this in here. I am patriotic. I try to be. Is the productivity 4 to 1?

Mr. HENRY. No. As far as we can determine, the productivity is not greatly different than equal.

Senator MAGNUSON. You think it is equal in foreign yards?

Mr. HENRY. It is closer to being equal than anything else.

Mr. NEMEC. Productivity between American yards and foreign yards is about equal. I got this information last year from a tour of shipyards in Europe and Japan. The figures were about the same.

Senator MAGNUSON. The last time I saw the Japanese yards they were employing twice as much labor to do the same job that we were doing because of their lack of automation machinery, or hardware, or they didn't want it because the labor was cheaper. In other words, they took two fellows to produce what one of our fellows would produce.

Mr. NEMEC. The situation is different today. The Japanese and German yards' physical plant layout, automation, if you will, are as good or better than our American yards. For example, we found a substantial number of yards in both Germany and Japan that use an electronic cutting device for cutting plates. At that time it was not yet installed in American yards. In using this device they would predraw all of the cut plates they would need. That eliminated the mold loft, and hand cutting in the yards. In addition, they have all kinds of magnetic tools for helping them lift the plates in the yard. They have tremendous cutting sheds; they have welding facilities which are the equal of any in the world. The covered welding facilities of the Mitsubishi-Nagasaki yard are as good as any in the world. It is large. It is tremendous. They have gone into prefabrication. They are not competing with the United States, but they are competing against each other, and getting ready for an all-out price war. Shipbuilding is important to them.

Senator MAGNUSON. In other words, they are getting a lot of these things. Probably this has happened in this time you are talking about?

Mr. NEMEC. Yes.

Senator MAGNUSON. They would employ two or three and four times more men. They would be going up gangplanks like a series of ants.

Mr. HENRY. That was the case 2, 3, 4 years ago, but it has changed completely. It is possible that there would be just a few more men in Japan, and quite possibly there would be a few less men in Germany than we would employ.

Mr. NEMEC. The Swedish yards are the most efficient in the world, and they operate on the most efficient basis.

Senator MAGNUSON. Being named "Magnuson," I wouldn't deny that.

I have heard that the wage scales in these countries are moving upward. Is that correct?

Mr. HENRY. That is correct. We have a chart that will illustrate that.

Senator MAGNUSON. I am speaking of shipyard workers.

Mr. HENRY. Yes, the bottom two lines are Japan and Germany, and the upper one is the United States. That is percentagewise, the increase in Japan has been quite drastic; in other words, when you

move from 20 cents an hour to 40 cents an hour, you increase 100 percent. In Germany, not quite so drastic, showing an increase there of from 45 cents to possibly 70 cents, 65 cents. However, if you notice, while the percentage in the United States hasn't gone up quite that much in this same interval of time from 1951 to 1959, there is still a widening of the curve and the actual dollar difference between the two is still greater than it was at that time.

Senator MAGNUSON. In other words, even though they are raising their wages, they will never quite catch up with us?

Mr. HENRY. Right. The net effect——

Senator MAGNUSON. The net result would be better for all these workers?

Mr. HENRY. Yes. The net effect will be, again, to show a wider difference in costs between building a ship in this country and building it abroad.

Mr. NEMEC. The U.S. rate increased by 53 cents more per hour than it did in Germany.

Senator MAGNUSON. Even though our percentage would be much smaller against the total?

Mr. NEMEC. Ours was an absolute increase of 53 cents more than theirs. The increase per hour was about as much as a German gets per hour of work.

Senator MAGNSUON. You have got steel prices there. Germany looks like it is under the United States.

Mr. HENRY. Correct.

Senator MAGNUSON. Do they import any of our steel for shipbuilding—any European shipbuilding outfit?

Mr. NEMEC. Last year a quantity went into the Hamburg area.

Senator MAGNUSON. Where do the Scandinavian countries get their steel?

Mr. HENRY. From their own mills, or largely from England; and I think now from Germany. Actually, there has been very little importing of U.S. steel for shipbuilding over the last couple of years. Japan makes all its own steel.

Senator MAGNUSON. We export no steel to them, or it would be negligible?

Mr. HENRY. It would be negligible.

Senator MAGNUSON. In other words, we export very little steel for shipbuilding anywhere in the world; whereas, when this started, they practically had to rely on the United States for a great deal of their steel; and, of course, that cost would be the same or more than it costs the United States?

Mr. HENRY. More than it costs the United States.

Historically, the steel price is one place where we have been able to have an even break with foreign countries up until recently. You can see from the curves there: We have a steadily rising curve for the U.S. costs, and the German costs parallel the United States quite closely; the Japanese costs fluctuated quite widely because in Japan shipbuilding steel is a very substantial portion of their steel industry. Now, in both Germany and Japan, costs of steel have drastically dropped. One of the points we would like to come to: We think another cause for the widening difference in price between foreign and American will be the greater reduction in material costs abroad compared to America. Basically, since labor is getting paid only one-

quarter of the amount in Germany and Japan, materials and components should also tend to reflect the difference comparable to labor. Now, I say "tend to reflect." In practice, we have been able to be competitive but we are losing that advantage in steel. We are sure of that in Germany; and quite probably in Japan steel prices will start dropping below ours. We are having to import a lot of our own iron ore these days, so we are being brought onto an equal basis with them on the question of raw materials. They have taken advantage of any developments we have in factories and facilities. They are also investing in factories and facilities. In many cases they have been able to install modern plants because of their previous plants being demolished during the war. All of these things point to Japanese and German materials becoming cheaper in comparison to our materials. And since in those countries 75 percent of the costs of a ship are in materials, we expect to have—this to have drastic effect on the cost of ships in Japan or Germany compared to the United States.

Senator MAGNUSON. There is also a lot of subsidy in that circle, too; tax structures, tax rebates, and this and that. Much more favorable than our shipbuilders have in many cases.

Senator ENGLE. Do you have any idea to what extent these industries overseas have been rebuilt with foreign aid funds?

Mr. HENRY. I don't have any idea.

Mr. NEMEC. About 3 years ago we made an effort to get that information together—to get it together with respect to shipyard facilities only. We searched pretty hard through State Department records, and, as you know, that is a difficult thing to get out. The best we were able to do was to arrive at the conclusion that probably 80 percent of the shipbuilding facilities in Holland, in Belgium, in West Germany, in Denmark, were rebuilt with the aid of counterpart funds and that, in fact, they were grants from the United States. So, in effect, we have built our own competition overseas, and have done it directly with the U.S. taxpayers' money; and those facilities are good—modern, good equipment. They plowed back their earnings during the years. They have up-to-date, modern milling machines, machines that would be the envy of any American shipyard. They are wonderful plants. And we paid for a lot of it.

Senator ENGLE. Did you reduce that investigation to writing in the nature of a report?

Mr. NEMEC. No, sir. We tried to get something more specific on it. I don't believe these foreign countries are anxious to do it. We have found in addition to that there was a great deal of it given through State bank loans which we had guaranteed in part, as well as from the direct aid. It was part of the Marshall aid program, and it was a function to help them get on their feet; and we did it very well indeed.

Senator MAGNUSON. Well, the countries we are talking about here, of course, were essentially the maritime countries. In doling this out, emphasis was placed upon shipbuilding.

Mr. NEMEC. Probably the shipbuilding industries were the first heavy capital industries to revive in Japan and West Germany and in a large measure they sparked their entire economic revival through selling ships on the open world market.

Senator MAGNUSON. I want the record to show, of course, in this case—I think we have got to pay attention to this, we have no estimated cost on the Russian situation.

Mr. HENRY. No.

Mr. NEMEC. We have two indications of Communist or iron curtain prices. Poland and Yugoslavia have been in the world market, and when ships are put out for bids—they have been the low bidder.

If you like, we can supply for the records the details of foreign bidding, which would indicate a very wide disparity exists.

Senator MAGNUSON. They have made noises over there in the economic cold war and they freely admitted they are in with us—that they thought they might like to get into the shipbuilding business. Then our charts wouldn't be big enough to get up there.

Mr. HENRY. We have a footnote on page 3:

" The Communist shipbuilding countries; that is, Poland and Yugoslavia, can and do underprice all nations of the free world. CDS based on these countries would range between 60 and 65 percent.

Senator ENGLE. Where is this?

Mr. HENRY. At the bottom of page 3.

Senator MAGNUSON. Some of us thought maybe that some of these yards might have expanded, reached a point where it might be held, and, therefore, the capacity may have some effect of self-limiting this matter. Is world shipyard capacity getting greater?

Mr. HENRY. It is coming to a plateau now in all countries, but it did increase as you see from January 1956 until December 1958 by 23 percent, and programs underway will increase it by another 13 percent.

Senator MAGNUSON. Now, the percentage of increase in our country was lowest?

Mr. HENRY. By far.

Senator MAGNUSON. We were much higher in our capacity than they were, so, therefore, they moved up higher, increased faster, but all of them have sort of reached a plateau; would that be a fair statement?

Mr. NEMEC. Their capacity now is far higher than ever in world history. That capacity now far exceeds the volume of orders coming into the market. The best that we were able to estimate is that they have an ability to produce 15 million and 20 million deadweight tons a year. New orders are less than 5 million deadweight tons a year.

Senator MAGNUSON. I am wondering if it might not be wise—when we did give them help to rehabilitate their economy—if on something like this we might have said, "You can enlarge your capacity to take care of your own needs." These charts point up if Japan for instance has only the capacity to take care of ships the Japanese were going to use, this problem of foreign orders wouldn't pose this situation we have here. They all produced over capacity in the hope they would get foreign orders, isn't that correct?

Mr. HENRY. Correct.

Senator MAGNUSON. Not for their own needs?

Mr. HENRY. Correct. The only country that builds somewhat close to its own needs is the United Kingdom.

Mr. NEMEC. But the others are fiercely competitive for business. This world shipbuilding market is just a real dogfight. They are out scrapping for orders. In our opinion, that situation is going to get worse because they are running out of work and faced with laying up facilities, and workers, or just getting out and getting business to break even.

Senator MAGNUSON. In order to keep their yards alive?

Mr. NEMEC. Yes. There is no doubt in our minds these foreign governments are going to do everything to help their shipyards. Shipbuilding is too important an industry in Great Britain, Germany, Holland, and Japan to be allowed to slide. The shipbuilding industry employs too many workers. It is a major element in their whole economy.

Mr. HENRY. The shipyards in Scandinavia are very important in their export scheme of business. A good proportion of Scandinavian construction is for export.

Senator MAGNUSON. Is there anything else?

Mr. HENRY. The next few pages cover a description of shipyard facility improvements, and methods, ideas, techniques, improvements in labor skills, that we have observed in foreign countries. This in turn gets back to your question as to the productivity. It supports the point that productivity, for practical purposes, is equal between this country and foreign countries.

Senator MAGNUSON. We will put this all in the record, and it is going to be very valuable to us, and the committee may ask you for more details. We would be very appreciative if you give us the benefit of many things you have dug up here when we have further hearings on this matter, because I would agree with the conclusions about this cargo getting scarcer, and with more and more ships, and even with less building, that competition is going to be even greater.

Mr. HENRY. Even greater.

We would like to make one last point. The issue becomes slightly clouded by the difference in the American standards of construction and foreign standards, and because of the difficulty of proving by estimating what would be the lowest actual realistic price, if you were able to bid the ship abroad. In other words, we believe that the prices of ships abroad are actually less than the prices we are able to submit as estimates. This is illustrated by the contracts that we see being placed abroad at various times. As Mr. Nemec said, at the back of this statement there is a brief description showing pictures and printings of the Japanese liner-type vessel which is equable in every respect to our liner ships and quite competitive, and yet is being built in Japan for something in the neighborhood of $3,500,000. On page 20 we have listed the drop in price, from 1957 to 1959, in the Japanese Government-supported programs of this class vessel.

Senator MAGNUSON. $4,875,000 to $3,530,000.

Mr. HENRY. Right.

Senator MAGNUSON. Do the Japanese steamship lines pay the Government back anything? Are they mortgage deals?

Mr. NEMEC. They are mortgage deals, or they are the guaranteed loans. There have been a number of instances where American banks have furnished capital for Japanese ship construction, for Japanese companies, and loans have been guaranteed by the Japanese state banks.

Senator MAGNUSON. The Bank of Japan?

Mr. NEMEC. Yes.

Mr. HENRY. Yes; they have underwritten them in the case of default; others have been direct loans from the Government under programs, so it's been a little bit of each.

Mr. NEMEC. I went through a number of those when I was in Japan. It is a good, competitive ship. It is an austere ship. The crew facilities are, well—about like our Liberty ships built during the war. They are rough. It carries cargo just as well as we do, and is as fast and with less fuel. There is a table on page 19 that highlights one of our real problems facing the owner, of capital recovery. These ships which are being built abroad by competitive lines, or lines which can become competitive, are a lot cheaper than ours.

Mr. HENRY. We have shown there the cost to the American steamship owner after he has the benefit of subsidy.

Senator MAGNUSON. Capital investment per ton-mile?

Mr. NEMEC. All that is to show in a common denominator what the relative costs of those ships are.

Senator MAGNUSON. You mean for every mile he goes per ton, that is what it costs him?

Mr. NEMEC. No, what he did here was to take deadweight tonnage, multiply it by speed, and use that factor to divide it into costs. It is a common denominator.

Mr. HENRY. It is the measure of capital investment per ton-mile ability. But the important thing is that the American steamship owner is still paying $5 million and $6 million after he has had the benefit of subsidy, against his foreign competition of $3,400,000, or $3,850,000.

Senator MAGNUSON. Thank you. Mr. Henry, we will be calling on you for more detail. Thank you very much.

Our next witness is Mr. John W. Clark, president, Mississippi Shipping Co.; and Mr. Burke G. Piper, vice president, finance, Grace Line.

Mr. CLARK. I have a prepared statement.

(The statement referred to follows:)

STATEMENT BY JOHN W. CLARK, PRESIDENT, MISSISSIPPI SHIPPING CO., INC. (DELTA LINE)

My name is John W. Clark. I am president of the Mississippi Shipping Co., Inc., trade name Delta Line, with headquarters in New Orleans. I have been connected with the company since August 26, 1936, having served in many capacities, both at sea and ashore.

The Mississippi Shipping Co., Inc., had issued and outstanding at December 31, 1958, 945,000 shares of common stock, a net worth of $26,832,758 and 2,500 stockholders. Its stock is held, in large part, by residents of the gulf area and Mississippi Valley.

Our company is a subsidized American-flag operator employing 13, and until recently 14 owned vessels, 3 of which are combination cargo-passenger vessels. Ten of the ships are in service between the U.S. gulf and east cost of South American ports (trade route 20) and the remaining three are operated between the U.S. gulf and west African ports (trade route 14, service 2). We employ approximately 870 seagoing personnel, approximately 1,000 shore labor personnel, and in our offices in the United States we employ approximately 200 people. We have our own offices in New York, Chicago, Houston, St. Louis, Washington, Rio de Janeiro, Santos, São Paulo, Buenos Aires, Abidjan, and Leopoldville.

Our company has been engaged in continuous operations since 1919 in our South American service and, from a pioneering venture with one ship, has developed the service in this trade in the intervening years to its present proportions. Our west African service was inaugurated in 1947. Prior to our introduction of this service there was no regular American-flag iner service out of the gulf to that area, and our entry in this trade was truly a pioneering effort. However, we realized the potentials in this area and from the date of introduction of our regular, dependable U.S.-flag service there has been a continuing development of a substantial trade in such commodities as coffee, fishmeal, sisal, rubber, logs, manganese ore, and

other strategic commodities inward, and petroleum products, cereals, machinery, oil rigs, flour, and diverse manufactured articles outward. While even with benefit of subsidy our west African service has not been a profitable one, we have confidence in its future.

On September 26, 1957, our company signed an operating-differential contract covering the 20-year period January 1, 1958, to December 31, 1977. This contract imposed upon the Mississippi Shipping Co., Inc., among other obligations, a construction program requiring the replacement of our fleet over the period of the contract.

On May 19, 1959, we entered into a contract for the construction of the first three replacement vessels, the cost per vessel based on an escalation factor of 8.5 percent on the low domestic bid over the period of construction being $10,406,235. This cost factor when applied to the FMB's finding of a foreign construction cost of these units of $4,990,000 produced a construction differential of 52.04 percent. Exhibit I attached details these calculations.

Under the terms of the 1936 act limiting construction differential to 50 percent, the cost to Mississippi Shipping Co., Inc., of these vessels becomes $5,203,118, which means that the company must absorb over and above the 50-percent differential, 2.048 percent of the total construction cost, or $213,118 per vessel. Applying this absorption to our entire replacement program we find that over the period of replacement the company's absorption would amount to $2,770,534.

The calculations hereinbefore set forth were predicated upon the FMB's staff determination of a foreign cost of $4,990,000. The experts, J. J. Henry & Co., employed by the Mississippi Shipping Co., Inc., to determine the foreign cost of the construction of our vessels reported a foreign cost of $4,700,000. A careful comparison of the findings of our experts, J. J. Henry & Co., with the findings of the FMB's staff convinced us that J. J. Henry & Co.'s findings, based on an actual commercial bid from a reputable Japanese shipyard, were substantially correct. However, since the FMB's findings were in excess of the 50-percent construction-differential subsidy ceiling, there was no reason for requesting a hearing before the FMB for the purpose of establishing the accuracy of the J. J. Henry & Co.'s findings, as compared with the FMB's staff computations.

We attach as exhibit II calculations of the construction-differential subsidy arrived at by using the J. J. Henry & Co.'s foreign cost findings from which it will be noted that, using the J. J. Henry & Co.'s cost of $4,700,000, the construction-differential subsidy amounts to 54.835 percent, which means that the company must absorb over and above the 50-percent differential, 4.835 percent of the total cost of construction, or $503,118 per vessel. Applying this absorption to our entire replacement program we find that over the period of replacement the company's absorption would amount to $6,540,534.

The legislative history of the 1936 Merchant Marine Act clearly indicates that it was the intent of the Congress to place the American operator constructing vessels under title V of the act on a parity with his foreign competitors. At the time of the passage of the act there was a differential between domestic and foreign costs of approximately 40 percent and, in order to avoid issuing a "blank check" on the construction-differentials, a ceiling of 50 percent was written into the statute—this in spite of the fact that the intent was to place the American operator on an equal footing with his foreign competitors.

Construction-differential subsidy is a direct payment to the shipyards by the Government of the difference between the American shipbuilding costs of labor and material, as compared to similar costs in foreign shipyards, and the statutory limitation of 50 percent causes the American shiponwer, instead of the Government, to directly subsidize the shipyards. Aside from the obvious inequities in this situation, the rising U.S. construction costs, and the resultant increases in the amounts which American shipowners must pay to the shipyards as a direct sudsidy, places a burden on the shipowners which may possibly be beyond their financial ability to absorb.

Referring directly to our company's decision to sign a long-range operating-differential subsidy contract, requiring replacement of our entire fleet, we would point out that the studies influencing this decision were based on a projection of an overall replacement cost of $10 million per vessel, or a total replacement cost of about $130 million. We anticipated the construction-differential subsidy on replacement cost would be 50 percent, resulting in a total cost to our company of approximately $65 million.

Predicated on the cost of the three vessels, already contracted for, after the application of an 8.5 percent escalation factor, to what we consider a high foreign cost of $4,990,000, we find that our fleet replacement cost amounts to $135,281,055. Applying a construction-differential at the present ceiling of 50 percent to this cost

we arrive at a cost to the company of $67,640,527 of which $2,770,534 represents the excess of 50 percent which must be absorbed by the Mississippi Shipping Co., Inc., without benefit of subsidy, even though this amount represents the payment of a construction-differential to the shipyard by the company.

Using what we think is the more realistic foreign cost of $4,700,000, hereinbefore mentioned, Mississippi Shipping Co., Inc., must absorb without benefit of subsidy and pay to shipyards as construction-differential subsidy approximately $6,540,534, which we feel was clearly not the intent of Congress when enacting the 1936 act. This absorption results in increased depreciation of, say, 11 percent over the life of our fleet. This, as is obvious, is a result of the additional unsubsidized construction costs involved.

In addition to the absorption of the additional construction cost mentioned in the preceding paragraphs, the company would have to absorb interest expense on unsubsidized capital cost estimated at $2,081,287 for total fleet replacement, based on the Federal Maritime Board's foreign construction cost of $4,990,000 per unit, and $4,903,697 interest expense on our foreign construction cost findings of $4,700,000 per unit.

It is now obvious that the statutory limitation of 50 percent on construction-differential subsidies, imposed by the 1936 act, no longer fulfills the intent of Congress at the time of enactment, i.e., that American shipbuilding costs should be placed on a parity with foreign shipbuilding costs. We believe the experience of our own company adequately illustrates the burden which must now be borne by American operators in assuming construction costs in excess of the 50 percent statutory provision, and emphasizes the need for corrective legislation.

We heartily endorse and support the Magnuson-Butler bill (S. 2584), which we consider not only opportune but absolutely essential to the interests of this country in placing our shipyards, as well as steamship operators, on parity with their respective foreign competition. We also believe, in fairness to the operators that have executed construction contracts earlier this year, that the bill should be amended to provide retroactivity for all new construction contracted for after January 1, 1959. Otherwise, the pioneering efforts of several lines, including my own company, will be severely penalized.

EXHIBIT I

Example of American fixed price to be used in determining construction—Differential subsidy using a Japanese fixed price of $4,990,000

		Percent
Low U.S. bid	$9, 591, 000	
Add escalation to arrive at domestic fixed price bid (8.5 percent)	815, 235	
Domestic fixed price	10, 406, 235	
Fixed Japanese price	4, 990, 000	
Construction-differential subsidy should be $\frac{\$10,406,235-4,990,000}{\$10,406,235}$		=52. 048
Mississippi Shipping Co., Inc., construction differential subsidy as limited by 1936 act		50. 00
Mississippi Shipping Co., Inc., pays	$5, 203, 118	
Loss to Mississippi Shipping Co., Inc	213, 118	2. 048

EXHIBIT II

Example of American fixed price to be used in determining construction—Differential subsidy using a Japanese fixed price of $4,700,000

		Percent
Low U.S. bid	$9, 591, 000	
Add escalation to arrive at domestic fixed price bid (8.5 percent)	815, 235	
Domestic fixed price	10, 406, 235	
Fixed Japanese price	4, 700, 000	
Construction-differential subsidy should be $\frac{\$10,406,235-4,700,000}{\$10,406,235}$		=54. 835
Mississippi Shipping Co., Inc., construction differential subsidy as limited by 1936 act		50. 00
Mississippi Shipping Co., Inc., pays	$5, 203, 118	
Loss to Mississippi Shipping Co., Inc	503, 118	4. 835

Senator MAGNUSON. You can go right ahead.

Mr. CLARK. In my statement I give a brief historical background of our country. I give an outline of our organization, offices, and also indicate our efforts in developing trade on the east coast of South America, and west Africa, in fulfilling the objectives of the 1936 act. On September 26, 1957, our company signed an operating-differential contract covering the 20-year period January 1, 1958, to December 31, 1977.

Senator MAGNUSON. You didn't go under subsidy until then?

Mr. CLARK. We came under subsidy, our first contract was in 1937. This was our second 20-year period.

Under the terms of this contract we obligated ourselves to a construction program requiring replacement of our fleets over the period of the contract.

On May 19, 1959, we entered into a contract for the construction of the first three replacement vessels—the cost per vessel based on an escalation factor of 8.5 percent on the low domestic bid over the period of construction being $10,406,235. This cost factor when applied to the FMB's finding of a foreign construction cost of these units of $4,990,000 produced a construction-differential of 52.048 percent. Exhibit 1 attached details these calculations.

The Federal Maritime Board, in their estimates on delivered price of the vessels, use an escalation figure of 5.8 percent, as the previous witnesses have stated. That is a very narrow margin for excalation over this period, and it is our opinion, based on the advice of economists, our own staff members, CASL replacement committee, as well as the shipyards, that 8.5 percent is a much better figure. This is also the opinion of our certified public accountants who have prepared the estimate for us on that basis.

Senator MAGNUSON. Let us go off the record.

(Discussion off the record.)

Senator MAGNUSON. Whether it be fixed or an adjusted price, if it runs over the 50 percent, and this still is on the books, then the only way the ship can be built is for either the shipbuilder, the operator, or both, to get together for absorption of the extra amount. The shipyard could do it.

Mr. CLARK. By negotiation.

Senator MAGNUSON. By negotiation, and under law it could be negotiated.

Mr. CLARK. I would like to show you what happened in our own case.

Senator MAGNUSON. It could be negotiated under law.

Mr. CLARK. Yes.

Senator MAGNUSON. That would have the effect of knocking down the price, or could the operator and the shipbuilding company get together and say, "We will both work this out, we will adjust a few things"?

Mr. CLARK. I don't think anybody but the shipowners would be the only ones to be hurt. I would like to give you an example of how this will affect my company. If you will refer to exhibit 1 which is attached, it will make it easier to follow.

Senator MAGNUSON. Why don't you sit on this end here, so that the people will hear you.

Mr. CLARK. Under the terms of the 50 percent limitation, the cost to the Mississippi Shipping Co. becomes $5,203,118, which is one-half of the domestic cost. This means that the company must absorb over and above the 50 percent differential, 2.048 percent of the total construction cost, or $213,118 per vessel. Now, applying this absorption to our entire replacement program, we find that over the period of replacement the company's absorption would amount to a total of $2,770,534. This is based upon Federal Maritime Board's calculated foreign cost. We employed the J. J. Henry Co., who has considerable experience in this field, to obtain a reliable foreign cost estimate for us. On the basis of an actual commercial bid from a reputable Japanese shipyard, J. J. Henry & Co., working through their Japanese correspondents, came up with a documented foreign cost of $4,700,000.

Now, since the 50 percent statutory limitation exists, and the Federal Maritime Board acknowledged this differential being assessed of 50 percent, there was no need for us to prove the accuracy of the J. J. Henry figures.

Senator MAGNUSON. No, because when they reached the 50 percent they were through.

Mr. CLARK. If you will refer to exhibit No. 2 which shows the calculations of the construction-differential subsidy arrived at by using J. J. Henry Co. from which it will be noted that using J. J. Henry & Co.'s cost of $4,700,000, the construction-differential subsidy amounts to 54.835 percent, or 4.835 percent of the total cost of the construction, or $503,118 per vessel. Applying this absorption to the entire replacement program, over the entire period of replacement, the company's absorption would amount to $6,534,000.

Senator MAGNUSON. Let me ask this. Where the Maritime has the interest which would be in each place under 50 percent, is there any dispute as between the Maritime's estimate on foreign costs and the operator's estimates? Is there much of a dispute?

Mr. CLARK. Yes, it usually goes to hearing.

Senator MAGNUSON. Then at the hearing you would bring in such people as Mr. Henry, and they would bring in such people as they employ to arrive at these figures; do they always follow their employees' figures, or do they make adjustments?

Mr. NEMEC. They have made adjustments.

Senator MAGNUSON. Have the employees' ever been above the private figures?

Mr. NEMEC. Generally so, yes, sir.

Senator MAGNUSON. Oh?

Mr. NEMEC. The cost has been above, let's put it that way.

Senator MAGNUSON. In other words, the staff has a tendency to be more conservative, let's say, about the difference as compared with what the operators think it should be. Are those differences very wide?

Mr. NEMEC. In some instances; in some instances they have run quite high per ship.

Senator MAGNUSON. If you say now they are using Japanese costs as a usual criterion, are the costs they come up with for building a comparable ship in Japan, sometimes greater than the cost you could reach with direct contact with the Japanese operator?

Mr. CLARK. In our case it was $300,000 greater, approximately.

I would like to mention the fact that J. J. Henry & Co.'s correspondents used our actual plans and specifications and invitation to bid with a commercial shipyard in Japan, and obtained an actual commercial bid. This was not the case in the case of the Maritime staff.

Senator MAGNUSON. The Japanese know what we are doing about it, and they might quote two different figures deliberately.

Mr. CLARK. I would like to ask Mr. Henry if that is true.

Senator MAGNUSON. They know where and when the Maritime Board is asking for figures, for private construction, and they may juggle them.

Mr. CLARK. The J. J. Henry & Co. through its correspondents have gone to great lengths to avoid this possibility.

Senator MAGNUSON. The hour is getting late, and I think we are going to have sufficient testimony regarding the question of costs. What we are really concerned with is the 50-percent situation. Would you say, Mr. Clark, that it is your best opinion now, we know they are running above—does it look in your best opinion that future costs would remain at least what they are now, or maybe more?

Mr. CLARK. Based on the advice we have received, we expect the differentials shall increase.

Senator, if I may, I would like to mention one or two sentences, what this means to my company.

Senator MAGNUSON. Go ahead.

Mr. CLARK (reading):

> In addition to the absorption of the additional construction cost mentioned in the preceding paragraphs, the company would have to absorb interest expense on unsubsidized capital cost estimated at $2,081,287 for total fleet replacement, based on the Federal Maritime Board's foreign construction cost of $4,990,000 per unit, and $4,903,697 interest expense on our foreign construction cost findings of $4,700,000 per unit.

Our total cost of approximately $11,500,000 or 17½-percent increase in our total fleet increase replacement program.

Senator MAGNUSON. That is substantial. Maybe you won't have to borrow it all.

Mr. CLARK. Whether we borrow it or not, I think we might be able to earn something pretty close to that if we didn't have to borrow it.

Senator MAGNUSON. I think that is true. If you had it for your own use you could earn a little more.

Mr. CLARK. There is one other point. We heartily endorse and support the Magnuson-Butler bill which we consider not only opportune, but absolutely essential to the interests of this country in placing our shipyards as well as steamship operators on parity with their respective foreign competition. We also believe, in fairness to the operators that have executed construction contracts earlier this year, that the bill should be amended to provide retroactivity for all new construction contracted for after January 1, 1959. Otherwise, the pioneering efforts of several lines, including my own company, will be severely penalized.

Senator MAGNUSON. Now, let me ask you a $64 question. Supposing Congress said, "Well, 50 percent is enough to give these fellows. They're making money, and they are getting along, and they ought to be figuring out how to operate a ship after we give them half the cost." What would you do? Would you quit your opera-

tion, quit your replacement program, or would it place an extra burden on your profits?

Mr. CLARK. Under the procedures of the Federal Maritime Board there is in all of these operating contracts a feasibility clause. I think that my company, certainly, and probably many other companies, would be able to prove to the satisfaction of the Federal Maritime Board, and other interested agencies, that to complete our program under the existing requirements would work a hardship on our companies.

Senator MAGNUSON. In other words, it would be your present feeling about it that if something wasn't done here, that you might have to come in and get out of the contract?

Mr. CLARK. Not necessarily, but we would certainly have to reduce our building, our replacement program.

Senator MAGNUSON. In any event, regardless of the other details, it would have the effect of slowing up the whole replacement program to which many of you have signed contracts, is that correct?

Mr. CLARK. Yes.

Senator MAGNUSON. Thank you.

We now have Mr. Piper, who is vice president—finance, Grace Line.

Mr. PIPER. I have a prepared statement here.

Senator MAGNUSON. We will insert it into the record.

(The statement referred to follows:)

TESTIMONY OF BURKE G. PIPER, GRACE LINE, INC.

My name is Burke G. Piper. I am here, as vice president and treasurer, representing Grace Line Inc., a subsidized American-flag steamship operator with its principal office in New York City, in support of S. 2584.

Under its operating-differential subsidy contract, FMB–49, Grace Line Inc., like other American-flag operators, is required to complete a substantial vessel replacement program, by far the costliest in our history. This program cannot be completed on a basis economically competitive to foreign built and operated tonnage unless the parity principle embodied in the Merchant Marine Act of 1936 is again made effective.

Various studies undertaken by both Government and industry since enactment of the 1936 act have reaffirmed the soundness of the parity principle. However, in the present climate of world shipbuilding conditions, the difference between the cost of construction of American and foreign liner vessels is in excess of the 50-percent legal limitation now in existence with respect to the amount of construction differential which the U.S. Government will absorb. Based on information developed by the Maritime Administration as well as outside expert opinion, it appears that the actual present differential substantially exceeds 50 percent. In the foreseeable future, no reduction of this differential appears likely; on the other hand, an increase appears probable.

The parity principle is one of the bedrock concepts underlying the present structure of the privately owned American merchant marine industry. With the present difficult competitive situation facing American shipowners, it is inconceivable that they could, or should be expected to, invest funds of the magnitude required to build new fleets unless this bill is passed. Any requirement that an American shipowner build vessels without full parity means that it is being forced to absorb part of the cost of subsidizing the shipbuilding industry in the United States. It is not realistic to expect private investors to participate in such a basically unsound economic venture.

We, therefore, heartily support the passage of S. 2584.

Mr. PIPER. I exhort you, on behalf of Grace Line, to support S. 2584. As we see it, we are faced with a very tough competitive situation right now and in the foreseeable future, and in order to carry on, we will need parity.

Senator MAGNUSON. You sum it up pretty well when you say "in the foreseeable future. No reduction of differential is likely; on the other hand, an increase appears probable." In effect, what you also say is if the parity principle is going to be applied, if that is the intent of the act, it should be applied as suggested in the act, and not with limitations.

Mr. PIPER. It is particularly serious in view of the tough competition facing us now and in the future.

Senator MAGNUSON. All right, Mr. Piper. We will put your statement in the record in full. Thank you.

Our next witness is Mr. William J. Dorman, vice president—technical, American Export Lines.

Mr. Dorman.

Mr. DORMAN. I, too, have a short statement, Senator.

Senator MAGNUSON. Your statement will be made a part of the record.

(The statement referred to follows:)

STATEMENT OF WILLIAM J. DORMAN, VICE PRESIDENT—TECHNICAL, AMERICAN EXPORT LINES

The AEL strongly urges the passage of Senate bill 2584. Our company is well embarked on its ship replacement program, having contracted for eight new freighters in two groups of four ships each. We must contract for four additional ships in 1960.

The first group was contracted for in February 1958, and all four of these vessels are now on the ways—two hulls building at San Diego and two hulls building at Camden, N.J. The Federal Maritime Board determined our construction subsidy on these vessels to be 45.3 percent, based on their study of foreign costs in Germany in the fall of 1957.

The second group of four vessels was contracted for in March 1959 with all four vessels going to San Diego, where their keels will be laid during 1960. The Federal Maritime Board determined our construction subsidy on these vessels to be 48.3 percent, based on their study of foreign costs in Japan in the fall of 1958.

During 1960, we are obligated to contract for the construction of another group of four freighters. We are carefully watching shipyard prices in the United States, as reflected by the bids received by Mississippi, American Mail, Pacific Far East, and States Steamship Co. and current prices in the foreign shipbuilding centers as frequently announced in the technical press.

Barring only an extremely low domestic bid price, we are of the opinion that when we are ready to contract for our third group in 1960, the correct subsidy calculated under the principle of providing the U.S. owner absolute parity with his foreign competitor on the matter of new ship costs, will be about 55 percent. The fact that the existing 50 percent limit on subsidy prevents us from achieving this parity with our foreign competitors is an alarming situation, which we feel must be corrected if we are to successfully complete our new construction program at a cost which will make the operation of the new ships economically feasible.

We feel that we must point out that our company's obligation to replace a fleet of 30 vessels involves a terrific financial burden. Even when we assume that the principle of parity will be maintained throughout our entire replacement program, we find that the cost of a new fleet calculated on the best available foreign costs adds up to a staggering amount of money to export. We often wonder if we will have the financial resources to put across our entire replacement program.

If, on the top of this basic financial problem, we find that we will not even enjoy parity with our foreign competitors because of the present 50 percent subsidy ceiling, we are afraid we will have to request a complete reconsideration of our present fleet replacement obligations.

Therefore, we feel it is essential that S. 2584 be passed.

Mr. DORMAN. I just wanted to point out that we are in favor of bill S. 2584. We have already embarked on our program with eight ships contracted for, and we are worried about what will happen in 1960. During 1960, we are obligated to contract for the construction

of another group of four freighters. The first group was contracted for in February 1958, and all four of these vessels are now on the ways. The second group of four vessels was contracted for in March 1959, with all four vessels going to San Diego where their keels will be laid during 1960.

Barring only an extremely low domestic bid price, we are of the opinion that when we are ready to contract for our third group in 1960, the correct subsidy calculated under the principle of providing the United States owner absolute parity with his foreign competitor on the matter of new ship costs will be about 55 percent. We are quite worried about the overall picture, that the company's obligation to replace a fleet of 30 vessels is a tremendous burden, and even if we assume the principle of parity be maintained throughout the program, we find that the cost adds up to a staggering amount of money.

If on top of this basic financial problem we find we wouldn't enjoy parity, just as Captain Clark said, we might have to request a reconsideration of the whole program. To summarize, we are very much in favor of the bill.

Senator MAGNUSON. We will go off the record.

(Discussion off the record.)

Senator MAGNUSON. Now, Mr. Harrison Glennon, vicepresident, engineering, Moore-McCormack Lines.

Mr. Glennon has a very short statement.

STATEMENT BY HARRISON R. GLENNON, JR., VICE PRESIDENT ENGINEERING, MOORE-McCORMACK LINES, INC.

Mr. GLENNON. If I may, I would like to read it.

My name is Harrison R. Glennon, Jr. I am here as vice president, engineering, representing Moore-McCormack Lines, 2 Broadway, New York City, a subsidized American-flag steamship operator in support of S. 2584.

Moore-McCormack Lines, Inc., under its operating differential subsidy contract is currently engaged in replacing its cargo and passenger fleet. Two passenger ships have been completed, seven cargo vessels are under construction at San Pedro, Calif., and Chester, Pa., and a large number of additional cargo liners remain to be designed and constructed. The cost of completing this program is substantial.

We have noted with increasing concern the spread in costs between foreign and U.S. shipyards. When our first contract was signed the differential was less than 40 percent, but this has increased to the point where the differential of the last three of the cargo ships will be well above 50 percent. Studies made by us abroad indicate that the differential will increase and this has been confirmed by expert opinion.

Competition is intense in all of our trade routes and it is essential that we not be required to build vessels at other than parity. We therefore, heartily support S. 2584.

Senator MAGNUSON. Your program is for how many ships?

Mr. GLENNON. Approximately 43.

Senator MAGNUSON. The cost would run pretty high.

Mr. GLENNON. Quite high.

Senator MAGNUSON. Thank you, Mr. Glennon.

Our next witness is Mr. J. R. Dant, vice chairman, Committee of American Steamship Lines, and president, States Steamship Co. Mr. Dant.

STATEMENT BY J. R. DANT, VICE CHAIRMAN, COMMITTEE OF AMERICAN STEAMSHIP LINES AND PRESIDENT, STATES STEAMSHIP CO.

Mr. DANT. It is a pleasure to be before you here today as the vice chairman of the Committee of American Steamship Lines. I am appearing in place of Mr. George Killion, chairman of C.A.S.L. He is in Denver representing C.A.S.L. before various large groups to stimulate public interest in the American merchant marine. His commitment to go to Denver was made prior to the scheduling of this hearing.

Witnesses who have preceded me have explained that the American merchant marine in foreign trade is faced with a serious problem in the replacement of their fleets. The high costs existing today make it very difficult for a company to justify the expenditure for new vessels which we in C.A.S.L. are contractually obligated to build.

I appreciate this opportunity to express basic and fundamental views of C.A.S.L. concerning the American merchant marine.

The United States must have an adequate merchant marine as dictated by the Merchant Marine Act of 1936.

In keeping with the purposes and national policy enunciated by the act:

These ships must fly the American flag.

These ships must be built in American yards.

These ships must be manned by American crews.

These ships must be owned by American citizens.

These ships of the American merchant marine are essential to the movement of American foreign trade on the essential trade routes of the world.

These ships of the American merchant marine are essential to the national security and are available as a naval and military auxiliary in time of war or emergency.

Our postwar experience has further indicated that such an American merchant marine is essential for the carriage of military personnel and cargoes to meet the international commitments of the Nation.

The congressional purposes and intent of the construction differential subsidy is to achieve parity.

Now we are confronted with foreign costs which are closing the margin of the 50 percent construction differential and in some recent cases the 50 percent differential has been exceeded.

The principle of parity is unchanged.

The proposed legislation will permit the construction differential subsidy to exceed 50 percent.

This will preserve the principle of parity.

Accordingly, CASL sincerely and wholeheartedly endorses the proposed legislation.

While CASL makes the foregoing endorsement, it should be pointed out that no money of the construction differential subsidy is paid to the shipowner.

These moneys are paid direct to the shipbuilder.

By this procedure the shipbuilding skills and techniques are preserved and encouraged.

The national security posture is increased by the possession of shipbuilding capability in action.

Thus, the American merchant marine not only provides ocean transportation available for peace or war but also supports the vital shipbuilding industry so essential to the Nation.

Finally, the influence of the American merchant marine and the American shipbuilding industry are felt in every State of the United States and in every facet of the national economy.

My remarks are in behalf of my position as vice chairman, Committee of American Steamship Lines. They are very brief, but in substance they cover the fact that I am here in place of Mr. Killion who, as mentioned previously, is in Denver, and I might say for the record he was very unhappy about the fact he was not present and also quite disturbed that he was not going to have more of a group in Denver, but he certainly understood. He expected the rest of us to be there, and we are very much happier to be here today.

I think the other remarks that are made in here pertain to the act, and in substance bring out the fact that the money that is paid is paid to the shipbuilder by the Government.

In closing, I would say that my remarks on behalf of CASL and our group are to heartily endorse the legislation that has been suggested.

Senator MAGNUSON. I wanted to add one thing, that one of the cosponsors of the bill is the Senator from Maryland, Mr. Butler, who intended to be with us today, but was ill and couldn't come. I wanted the record to show that.

Thank you, Mr. Dant.

Now, Mr. Ralph Dewey, did you want to put something in the record? Do you want to add your comments to what has been said?

Mr. DEWEY. I have no statement to make. I just wanted to identify the Pacific American Steamship Association in support of this legislation, and commend the other witnesses for an excellent record.

Senator MAGNUSON. Thank you, Mr. Dewey.

Our next witness is Mr. L. R. Sanford, president, Shipbuilders Council of America, 21 West Street, New York, N.Y.

Mr. SANFORD. I am sort of a maverick. I am one shipbuilder among a flock of shipowners.

Senator MAGNUSON. You have a prepared statement. It will be made a part of the record.

STATEMENT BY L. R. SANFORD, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. SANFORD. The question at issue here today is: What action should be taken by the Congress with respect to the limitation of 50 percent provided in section 502(b) of the Merchant Marine Act, 1936, on the construction differential subsidy? This subsidy represents the excess of the bid of a U.S. shipbuilder on the construction of a proposed vessel in the United States and a fair and reasonable estimate

of the cost of a similar vessel constructed in a foreign shipbuilding center selected by the Federal Maritime Board.

The cost of building ships, like practically every other industrial product, has increased over the years, not only in the United States but worldwide. The council understands that the Federal Maritime Board has found that the increase in the United States has been at a faster rate than in foreign shipyards, so that the divergence between U.S. costs and foreign costs has gradually widened. At the time the 1936 act was passed, there was a more or less general belief that the differential in the case of a cargo vessel was approximately 40 percent. For the past 4 years each determination of a construction differential by the Board for a specific vessel or vessels has resulted in a greater differential than for the preceding vessel or vessels. Recently, representatives of the Maritime Board have publicly stated that the differential has actually exceeded the 50-percent limitation provided in the act.

It is that fact which has created the call for the removal of the 50-percent ceiling. It is evident that, if the present trend continues, the differential could go still higher. The Government, under present law, cannot absorb more than a 50 percent differential. Consequently, in the absence of new legislation, the owner will be forced to pay any excess over 50 percent. Such payment would immediately shatter the parity concept which is the basic philosophy of the 1936 act.

The theory of the 1936 act as originally enacted was that a U.S.-flag shipowner engaged in foreign trade on an essential trade route should be placed in a position of parity with his foreign-flag competitor by being given an equality of opportunity to compete by means of an equalization of both capital costs and operating costs.

In other words, he can acquire a new ship built in a U.S. shipyard at the same price that his foreign-flag competitor could obtain such a ship from a foreign shipyard and thus, theoretically at least, his fixed charges on his capital investment in ships, such as interest, depreciation, insurance, etc., are on a par with those of his foreign-flag competitor.

This parity concept, as I have said, is the basic concept of the 1936 act. Since the act was passed it has been the subject of innumerable investigations by legislative committees, administrative committees, special Presidential committees, and others, but in every case the parity concept emerged unscathed. It is unnecessary here to go into more detail as the findings of the various groups are well documented in "A Legislative History of Shipbuilding Subsidies Under the Merchant Marine Act, 1936" issued by the Committee of American Steamship Lines in June of this year 1959.

In 1952, in an effort to stimulate some new construction by operators other than those on the essential trade routes, the parity concept for the construction cost to U.S.-flag operators of ships built in U.S. shipyards was made available by the long-range shipping amendments to the 1936 act, to any new ship constructed in a U.S. shipyard for foreign trade under the U.S. flag.

As far as I can determine from the legislative history, the 50-percent limitation included in the 1936 act was apparently more or less arbitrarily set without relation to any possible effect on the parity concept, but rather merely to establish some sort of a ceiling which at

the time, at least, was thought by most to provide ample leeway for any then foreseen possible contingency. However, several voices over the years have pointed out, as did Mr. John Franklin, even in March 1936, when the 1936 act was under consideration, that "a 50-percent differential subsidy will not always be sufficient to give parity of cost in the case of cargo ships" and that "unless parity of costs is obtained" new construction was "exceedingly doubtful." Several times since World War II the possibility of a differential in excess of 50 percent has been raised.

That time has now arrived and we are face to face with the realistic necessity of some action with respect to the 50-percent limitation in order that, if the Federal Maritime Board makes findings of construction differentials in excess of 50 percent, it then can legally implement them so as to preserve the parity concept and permit U.S.-flag owners to continue to acquire U.S.-built ships at their equivalent foreign prices.

It does not appear that there is any practical alternative to the absorption by the Government of whatever portion of the contract price of a replacement ship may be necessary to place the owner in a position of parity, capitalwise, with his foreign competitor.

Under section 502(a) of the act the Commission (now the Federal Maritime Board) is authorized to enter into a contract with the successful bidder to construct the vessel and pay the contract price thereof and then sell the vessel to the applicant at a price corresponding to the estimated cost of building such a vessel in a foreign shipyard. Section 502(b) states that the amount of the reduction in selling price is termed the "construction differential subsidy." Since 1953, this particular procedure has not been followed. As a result of substituting private financing for government financing, the procedure of section 504 is followed, and only the Government's share, viz, the construction differential subsidy, is paid directly by the Government to the shipbuilder instead of the entire contract price. But the net result is the same. It enables the shipowner to obtain a new U.S.-built vessel at the foreign cost thereof and thus preserves the parity concept in respect to capital investment.

It should be crystal clear that the construction differential subsidy actually is not a subsidy at all in the common connotation of the word as applied to domestic subsidies of various kinds. It is merely an equalization payment.

As far as the shipbuilder is concerned, all that is involved is the bid on which his contract is awarded, which becomes the contract price. That is all he ever gets as a result of a construction subsidy, whether he makes a profit, breaks even, or suffers a loss.

As far as the shipowner is concerned, he pays the estimated foreign cost of the vessel and preserves his parity. He is just as much the beneficiary of the construction differential subsidy as is the shipbuilder. While the shipbuilder gets a contract for a ship at his bid price the shipowner gets the ship at a reduced price, the Government paying the difference.

If we are to continue our traditional and statutory merchant marine policy, and, if we are to continue as a world seapower—and we cannot afford not to maintain ourselves as such, lest we be overwhelmed—we must maintain all those elements which make up seapower, including a shipbuilding and ship repairing industry. And

inevitably the Government must pay for that seapower. It pays 100 percent of the cost of the Navy and if it must pay 50 percent or more for the cost of merchant ships, so be it. It is still a bargain.

For a more detailed commentary on maritime subsidies in relation to seapower, I refer you to my testimony before a special Subcommittee on Maritime Subsidies of the Committee on Interstate and Foreign Commerce on July 14, 1953. It is perculiarly pertinent today.

I do not believe anyone will advocate lowering the standard of living in this country and the wages that are consistent with that standard to meet low-cost foreign wages so as to eliminate the construction and operating differential subsidies necessary to maintain our merchant marine. As long as we have our present standards and their equivalent wages or even higher ones, just so long must we expect to have to pay subsidies or equalization payments to maintain an appropriate and adequate merchant marine.

It recently has been suggested that U.S. shipowners might have to have their ships constructed in foreign shipyards. Such action is unthinkable as it flies in the face of our historic maritime policy dating back to the beginnings of this country when Congress forbade U.S. documentation to foreign-built vessels (act of December 31, 1792).

The fifth section of the Panama Canal Act of August 24, 1912, did provide for the admission of foreign-built ships, not over 5 years old, to U.S. registry for the purpose of engaging in foreign commerce. The outbreak of war in August 1914 had such serious repercussions on our foreign commerce that the President signed an emergency act to permit U.S. documentation of foreign-built vessels, regardless of when built, which had the effect of eliminating the 5-year provision of the act of 1912.

At the present time, foreign-built vessels can be registered in the United States for foreign trade only, provided they comply with all our rules and regulations, but they cannot be documented for domestic trade, which is still restricted to U.S.-built vessels under the Navigation Act of 1817.

Shipbuilding and ship repairing are vital cogs in the national economy as well as in the national security. The use of foreign-built vessels in the subsidized services—or in any services for that matter—would deal the shipbuilding industry a body blow from which it would be unlikely to recover. It would jeopardize facilities for the private construction of vessels for the Navy, of vessels for the domestic services and many miscellaneous craft vital to both our national economy and our national security. Components and materials for ships are drawn from every State in the Union, thus creating widespread production and employment. The economic effect is nationwide.

The U.S. Government cannot afford to sell the shipbuilding and ship repairing industry down the river by any such procedure as it would thereby deliberately sacrifice its seapower by destroying one of its vital links. That seapower under present world conditions is indispensable to our leadership in providing for the security of the free world.

Hence, the U.S. Government perforce has no choice. It must pay the excess price of U.S.-built ships over the foreign price regardless of what any such excess may be. Similarly, the United States has no choice in the development of missiles and rockets—or for that

matter in the construction of nuclear-powered submarines and other special types of naval vessels. The American people cannot afford to look to foreign sources for items which are essential to national survival.

The construction differential subsidy has been called an equalization payment, which in truth it is. It has the effect of protecting a U.S. industry against the inroads of cheaper foreign competition just as protective tariffs have protected other U.S. industries against that type of foreign competition. A tariff on the use of foreign-flag vessels in our foreign trade would be contrary to public policy. The construction differential accomplishes the same objective in a different manner.

I merely want to say that the shipbuilding industry is solidly behind S. 2584. We realize that it is imperative that the parity concept be preserved, imperative in the interests of the shipowners, and it is equally imperative in the interests of the shipbuilders. Further than that, I don't think it is necessary to go. Somewhere in here, in my testimony, I did make reference to some testimony that I did give before this same subcommittee in about 1953 in connection with seapower, but you can refer to that for reference.

Senator MAGNUSON. It is true, and several others have on other occasions gone way back, so there has been ample warning of this—that this 50 percent limitation was not always going to last. We knew we would have to be looking at it and thinking about it.

Mr. SANFORD. Even when $36 billion was being considered, John Franklin made comments to the effect that the day would come when 50 percent would not be adequate.

Senator MAGNUSON. A lot of us thought that was a pretty large figure at that time, and there wasn't the fluctuation in the differences between world shipbuilding costs.

Mr. SANFORD. I don't think the figure was put in with the particular desire to limit it in any way. It was put in more or less as an arbitrary ceiling. Everybody thought it was ample and it has developed that it isn't.

Senator MAGNUSON. We will go off the record.

(Discussion off the record.)

Senator MAGNUSON. Do you have anything further, Mr. Sanford?

Mr. SANFORD. No.

Senator MAGNUSON. We have gone through our list of witnesses. This hearing will be recessed.

(Whereupon, the hearing in the above-entitled matter was recessed.)

AMENDMENT TO THE MERCHANT MARINE ACT, 1936

(Construction Differential Subsidy)

MONDAY, FEBRUARY 15, 1960

U.S. SENATE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The committee was called to order at 10:35 a.m., in room 5110, New Senate Office Building, Hon. Warren G. Magnuson (chairman) presiding.

The CHAIRMAN. The committee will come to order. We apologize to the witnesses for being a little bit late. The Senator from Maryland had snow troubles this morning, and the Senator from Washington had Democratic policy committee troubles.

We have a long list of bills and several witnesses on general maritime matters. The chairman is hopeful that this week, because of the pressure of time at this session, that we can conclude the hearings on several of these bills pertaining to maritime matters. Some are House bills, some are Senate bills; some are not very controversial, others are. I feel that the committee has the responsibility of hearing the witnesses on these bills which are of deep interest to all of us concerned with the maritime industry in the United States.

These hearings are on some major bills, and some that we might term "secondary" bills. But the general deterioration of the American Merchant Marine has given this committee as well as all the members in the industry, labor, management, Defense Department, and everyone concerned, great cause for some serious thought. It may be that some of the bills themselves which only relate to specific matters might lead into some of the general discussion on what is the sad plight of the American merchant marine in our economy and in our position in the world.

Many of you in this room will recall that this same thing happened 8, 9, or 10 years ago. At that time this committee, feeling about as we do now, did start some hearings and some activity with the then Maritime Commission, now Maritime Board, and others interested. We think we were helpful in bringing back the maritime to an adequate status. And now we find as a general proposition it is drifting back down.

There may be some general questions or some general discussion on the whole problem, but specifically the bills are going to be considered as follows:

The first bill we will take up is S. 2584, to amend title V of the Merchant Marine Act, 1936, in order to remove certain limitations on the construction differential subsidy under such title

The next in order will be S.2618, to authorize the exchange of certain war-built vessels for more modern and efficient war-built vessels owned by the United States. This concerns the laid-up fleet.

The next bill we hope to consider in the hearings os S. 2669, to extend the period of exemption from inspection under the provisions of section 4426 of the Revised Statutes granted certain small vessels carrying freight to and from places on the inland waters of southeastern Alaska.

And then S. 2300 (H.R. 5068), to amend the Shipping Act, 1916, to provide for licensing independent ocean freight forwarders, et cetera. That is a matter the committee has had before it on other occasions. The House did pass H.R. 5068 at the last session and a similar bill the session before. I think in that case it is a matter of putting together a bill in which there can be at least a modicum of common agreement as to how far we should go with the freight forwarders on the licensing and regulations.

And then there is a House bill which passed the House unanimously, H.R. 8042, to authorize the Secretary of Commerce to resell four C1–SAY–1 type vessels to the Government of the Republic of China for use in Chinese trade on Far East and Near East waters exclusively. These are vessels which the Government sold to the Republic of China some years ago and then had to repossess. Our question is: Under what terms should China be permitted to reacquire these vessels?

We hope tomorrow to devote some time to the question of oversea transportation of military personnel, and their dependents. This of course is a matter of great importance to both the air industry and the merchant marine.

And another matter, Senator Butler, which you and I spent a lot of time on and got nowhere with the last time, because we couldn't seem to get any agreement between the two Governments—Canada and the United States—that as the question of Great Lakes pilotage. Apparently now the State Department is sponsoring a new bill. The bill is here. The Coast Guard and the Canadian authorities are reported to be in agreement. We ought to have this bill passed before the season opens on the St. Lawrence Seaway, which built up quite a lot of tonnage last year.

The first bill is S. 2584, to remove the limitation on the percentage of construction differential subsidy. The first witness is John Allen, the Undersectary of Commerce for Transportation.

Let the record show that the Senate Interstate and Foreign Commerce Subcommittee held some field heatings on this matter. They were quite short, but they were held in San Francisco on December 3, in which we had a chance to hear testimony from the west coast people interested. We had a long hearing which covered the subject pretty well there. At that time I announced we would have hearings in Washington.

We will now proceed.

Mr. Allen, you have a short statement, which we will be glad to have you read.

(S. 2584 follows:)

[S. 2584, 86th Cong., 1st sess.]

A BILL To amend title V of the Merchant Marine Act, 1936, in order to remove certain limitations on the construction differential subsidy under such title

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 502 of the Merchant Marine Act, 1936 (46 U.S.C. 1152), is amended by—

(1) striking out the second, third, and fourth sentences in subsection (b) and inserting in lieu thereof the following: "In any case where the lowest bid of a responsible domestic shipbuilder is found to be unreasonable or excessive, the proposed contract may be negotiated with the view to construction in a domestic shipyard at a reasonable cost"; and

(2) striking out the last sentence in subsection (d).

STATEMENT OF JOHN J. ALLEN, JR., UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION, DEPARTMENT OF COMMERCE

Mr. ALLEN. Thank you, Mr. Chairman.

I appreciate this opportunity to appear before your committee and present the views of the Department of Commerce with respect to S. 2584, which would amend the Merchant Marine Act, 1936, as amended, so as to remove the limitation of the payment by the Government of a construction differential in excess of 50 percent of the construction cost of a vessel constructed under the provisions of the act.

The purpose of the Merchant Marine Act, 1936, as amended, was to develop and maintain an adequate and well-balanced American merchant marine. In order to do this, it was determined that operators of American-flag ve sels had to be placed on a parity with foreign-flag operators in operation of their vessels as to specified and determined items of expense and, up to the point where the Government's cost equals that of the shipowner, in the construction of the new vessels.

The soundness of the direct subsidy system incorporated in the 1936 act to meet foreign competition has been generally recognized, and there have been only two departures from the 50 percent limitation. One was during World War II when the limitation was lifted as a general war emergency measure by authorizing the foreign cost determinations to be made on the basis of conditions existing in the period prior to 1939. The other was in special legislation authorizing construction of two superliners.

It is true that when the Merchant Marine Act, 1936, was enacted the prevailing construction-differential subsidy applicable to new vessel construction in domestic shipyards ranged between 30 and 40 percent of the domestic construction cost of the vessel. It is also true that during the period between October 1958 and 1959, the difference between foreign costs and domestic costs with respect to certain vessel construction projects under title V of the act ranged between 48.4 and 52.1 percent. Obviously, the owners of American-flag vessels will be required to pay more for their new ships than their foreign competitors if the difference between foreign and American shipbuilding costs remains in excess of 50 percent.

We are unable to determine at this time whether this will continue to be the situation. We do know, however, that shipbuilding costs in American and foreign yards are on a downward trend. Recent studies show that few new contracts for ships are being placed, and that shipbuilding capacity greatly exceeds demand. The competitive situation and more efficient production, resulting from the introduction of new equipment and manufacturing techniques and greater productivity of labor, could result in further decreases in shipbuilding, costs. The recent bids for the mariner-type ships for States Steamship show that between the first half of 1959 and November, shipyards in the United States reduced their bid figures.

The difference between American and foreign shipbuilding costs is not substantially in excess of 50 percent. In view of present trends, we do not believe that removal of the 50-percent limitation is justified at this time.

The Department of Commerce is, therefore, opposed to S. 2584, and recommends that it not be given favorable consideration by your committee.

The CHAIRMAN. Mr. Allen, I assume from this statement that it is the consideration of the Department of Commerce that you are hopeful, that the costs will continue to go down.

Mr. ALLEN. That is true, particularly in the American yards.

The CHAIRMAN. Is that hope based upon actual cost figures—labor, materials, and other things—going down, or is it based upon the hope that shipbuilding being so tight, competition being so keen for shipbuilding, that some of these shipbuilders are becoming so desperate that they are bidding down pretty low to a peril point on profits? On which is it based?

Mr. ALLEN. I think the latter has a lot to do with it. Competition is keener, and prices usually go down when competition is keen. As a longer term consideration, and in a sense a healthier one economically it has seemed to me that the American yards are now beginning to modernize their yards and some of their procedures to an extent that there will be major economies and much greater productivity of labor involved. On the other hand, I think it may be true that the European yards, which were reconstructed after the war and were in better shape with their machinery have now shaken down their procedures to the point where I would not expect the prices in foreign yards to go down as much as they may go down in American yards.

I don't have too much to back that up.

The CHAIRMAN. Of course if the price of construction in foreign yards goes down, then our problem on the 50-percent ceiling becomes even greater, doesn't it?

Mr. ALLEN. It does, unless the American costs go down at a rate greater than the foreign costs and the difference between becomes less, which is the basis of the subsidy.

One yard that I have been through, and I think it is typical of several American yards, is on the west coast where the yard has been entirely rebuilt and the flow of materials through it has been so set up that the efficiency is much better. The machinery which has been installed has eliminated a lot of the work, the hand labor, almost, that used to be involved.

The CHAIRMAN. Such as in a foreign yard.

Mr. ALLEN. I think there is more progress there.

There is another consideration——

The CHAIRMAN. Let's keep on that point. Wouldn't that pretty well dictate the necessity for us looking at the limitation in this particular case?

In the beginning they got tremendous numbers of ship orders. Now those ship orders to foreign yards are becoming more and more selective. Therefore the yards in turn are also making bids, sometimes under the pressure of their government, and on which they might lose money, to get the shipbuilding there. That would surely cause the prices in foreign yards, which as you say with modernization, will enable them to have the foreign yard prices go down.

Is that a fair statement?

Mr. ALLEN. I think they will be more competitive, but I think there is more room for improvement in equipment and procedures in American yards than in foreign yards.

The CHAIRMAN. Because some of those are new?

Mr. ALLEN. Those have been new, and ours are beginning to be new.

The CHAIRMAN. But although they were new, they were lacking in the beginning—and I have seen a few of them myself—in what we call automation in the yards. The figure was much greater in the use of hand labor in foreign yards in the beginning than now, as they gradually get more and more automation. Is that correct?

Mr. ALLEN. I think that is true, but I would think the big difference in foreign yards would be a change in the competitive situation. For a long time the shipbuilding ways were at such a premium that competition was on the other side.

The CHAIRMAN. In the beginning they got all the orders they could fill. They were backed up in the English yards. They have been backed up in the Japanese yards for some time. And in the Swedish yards, as I recall, too.

Does the Maritime Board have any figures at all on the modernization of the yards in foreign countries? Do you know how much of foreign aid funds went into those yards?

Mr. ALLEN. I don't have them myself. The Maritime people are here. They will probably refer you to the State Department.

The CHAIRMAN. The Department of Commerce should be interested in this balance, as it were. This involves a trade balance, although it deals in big things, ships. Are they substantial?

Mr. ALLEN. I would say we have made substantial contributions.

The CHAIRMAN. There has been substantial contribution of American dollars into remodernization of the foreign shipyards. And the lower the foreign shipyard's costs become, the more difficult a time we have in the spread between the construction cost of American yards and foreign yards—which spread becomes greater.

Mr. ALLEN. That is correct.

The CHAIRMAN. And from that it follows that there is more construction subsidy we have to pay to maintain parity.

Mr. ALLEN. Yes, sir.

The CHAIRMAN. What is our position in world shipbuilding today, do you recall that figure?

Mr. ALLEN. I think we are eighth.

The CHAIRMAN. We are eighth in the world. There are seven countries ahead of us in tonnage, is that correct?

Mr. ALLEN. I think that is correct.

The CHAIRMAN. I think that is the latest figure—eight or nine I don't know which. Ten years ago we were up there 1, 2, 3—we were either win, place, or show.

I am talking in Maryland language, now, since Senator Butler is here.

Senator BUTLER. May we have inserted in the record at this point the relative position of the United States, and showing the positions of the nations which are ahead of us in production?

The CHAIRMAN. Yes.

Mr. ALLEN. I think the Maritime Administration has that figure.

The CHAIRMAN. I think Commerce has that figure, too. (The figures referred to are as follows:)

Merchant shipbuilding in principal countries of the world, Jan. 1, 1960—New ship construction underway or on order

[1,000 gross tons and over]

	Cargo		Tankers		Passenger and combination passenger-cargo		Total			Previous report, July 1, 1959			Year ago, Jan. 1, 1959		
	Number of vessels	Gross tons	Number of vessels	Gross tons	Number of vessels	Gross tons	Number of vessels	Gross tons	Percent	Number of vessels	Gross tons	Percent	Number of vessels	Gross tons	Percent
Great Britain	204	1,512,051	109	2,298,450	17	305,525	330	4,116,026	18.4	369	4,686,736	18.9	442	5,372,706	19.7
Germany	173	1,378,700	71	1,889,300			244	3,268,000	14.6	312	3,779,880	15.2	358	4,192,755	15.4
Japan	106	944,650	75	2,186,110	2	5,600	183	3,136,360	14.0	164	3,266,700	13.1	199	3,784,110	13.0
Sweden	97	742,300	85	2,047,450			182	2,789,750	12.5	179	2,843,320	11.4	196	3,078,920	11.3
Holland	71	430,535	48	982,250	2	15,000	121	1,427,785	6.4	131	1,654,985	6.6	140	1,790,270	6.6
France	57	410,400	29	925,900	2	71,500	88	1,407,800	6.3	90	1,439,800	5.8	89	1,473,500	5.4
Norway	41	294,400	50	909,800	1	2,500	92	1,206,700	5.4	97	1,309,000	5.3	106	1,389,000	5.1
United States	39	361,400	20	593,000	1	13,400	60	967,800	4.3	68	1,213,200	4.9	75	1,536,300	5.6
Italy	27	253,250	25	597,900	1	29,000	53	880,150	3.9	73	1,156,650	4.6	87	1,359,000	5.0
Denmark	34	174,700	25	494,500	3	26,060	62	695,260	3.1	73	859,900	3.4	72	852,546	3.2
Spain	46	258,600	28	355,331	3	16,744	77	630,675	2.8	83	664,565	2.6	87	686,007	2.5
Yugoslavia	56	358,300	10	119,000			66	477,300	2.1	65	536,600	2.1	60	490,000	1.8
Belgium	17	116,250	11	228,700	1	23,000	29	367,950	1.6	35	429,850	1.7	37	472,000	1.7
Poland	49	263,200	3	36,000			52	299,200	1.3	50	305,600	1.2	(1)	(1)	(1)
Canada	14	113,100	1	24,000			15	137,100	.6	14	121,100	.5	17	170,560	.7
East Germany	34	132,400					34	132,400	.6	31	133,000	.5	35	155,600	.6
Finland	27	110,700	4	11,100			31	121,800	.5	37	147,500	.5	33	151,300	.6
Australia	8	62,200	1	20,000	1	1,200	10	83,400	.4	8	78,200	.3	9	85,200	.3
India	8	59,300					8	59,300	.3	12	74,420	.3	11	68,620	.3
China (Taiwan)			3	26,300			3	26,300	.1	2	43,000	.2	2	43,000	.2
Portugal	2	8,200	1	18,000			3	26,200	.1	5	39,425	.2	5	39,425	.2
Hong Kong	3	18,000					3	18,000	.1	4	17,600	.1	4	17,600	.1
Greece			1	16,000			1	16,000	.1	1	16,000	.1	3	48,000	.2
Bulgaria	2	4,000	3	6,000			5	10,000	.1	7	14,000	.1	7	14,000	.1
Turkey	1	4,500					1	4,500	.1	1	4,500	.1	1	4,500	.1
Argentina			1	1,000	1	3,000	2	4,000	.1	5	16,000	.1	5	16,000	.1
Philippines					2	3,200	2	3,200	.1	2	3,200	.1	2	3,200	.1
Eire	1	1,000					1	1,000	.1	1	1,000	.1	1	1,000	.1
Total	1,117	8,012,136	604	13,786,091	37	515,729	1,758	22,313,956	100.0	1,919	24,855,731	100.0	2,083	27,295,119	100.0

[1] No detail available.

Source: Records of (*a*) Shipbuilders Council of America; (*b*) American Bureau of Shipping; (*c*) Shipbuilding Conference; (*d*) foreign magazines.

The CHAIRMAN. It seems to me that the Department of Commerce takes the position that this 50 percent limitation is a serious matter, that it would continue to be serious, and we probably should do something about it unless your hopes are fulfilled as to reductions in costs.

Mr. ALLEN. I think that is correct. We have not abandoned the principal of parity at all. We are not at all convinced that the spread between foreign and domestic costs will continue to be great.

The CHAIRMAN. It has reached a point now where our best figures indicate that it has been teetering on that 50 percent. In some cases it goes over, and in some cases it may be right under. I believe the last figures indicate that it has always been between the range of 47 and 53. At the time of course, under the 1936 act, we put the 50 percent in to give us almost a 20 percent leeway because, as you pointed out, it was around 30—it never did get over 33, or 35. It moved up a little after the war to about 40, but now it is teetering on that brink.

Mr. ALLEN. I think there is a provision in the law, which has never been used, that says if the subsidy rate figures are more than 50 percent, negotiations can be conducted to reduce the bid. As far as I know, it has never been used. Maybe that is the one which should come next.

The CHAIRMAN. It has never been used that I know of, that provision of the law, I suppose because the Board, in the later cases—let's take the States Steamship problem—it went on to about 51 or 51.5, where there could be some absorption of the costs. I think any new bids we are going to find will be a little bit higher. And when you run over $200,000, $250,000, $300.000, or in some cases $400,000 per ship, that is going to be a little hard for the ship operators to absorb; if we are going to carry out the provisions of the act.

Mr. ALLEN. I think it is worth stating that in a variety of studies—and there have been a lot of them going on—it is recommended without exception, that there should be increased emphasis on research and development; a recognition of the fact that there is room for more improvement than might be usual in the ordinary industry. I think that that is an important consideration toward the point of not changing too much now until the trends are more definitely established.

As a matter of personal interest I looked at the container ship in Baltimore a day or so ago. I would think that sort of change would have tremendous implications, none of which can be correctly appraised at the moment.

The CHAIRMAN. The Department of Commerce doesn't entertain any hope of a lower cost based upon the cost of labor and material that goes into a ship, does it?

Mr. ALLEN. Not the hourly rates of labor, but the productivity of labor can be increased—just as it has been in yards where they have gone into plate cutting devices.

The CHAIRMAN. Labor and material is the bulk of the cost. I would say it might be about 80 percent of the cost of a ship.

Mr. ALLEN. I think labor used to run about 50 percent. I don't know what the rest of it is.

The CHAIRMAN. I think it might run higher. I wish somebody would put in the record the cost of labor and material which goes into the overall cost of a ship. Surely that would be of value to the committee because if we are going to go along with you in entertaining a hope—I don't think this committee or any one in this room or the

Department of Commerce would suggest any hope that labor costs and material costs would be on the downgrade in the foreseeable future.

Mr. ALLEN. If you mean labor costs on hourly rates, I would say that is right. But the cost of labor in ships might go down. I think it has in these improved yards. I heard one estimate—which probably has no basis in fact but which indicates a trend in someone's thinking—that the cost in the west coast shipyards in San Pedro might go down as much as a million and a half dollars on a ship.

The CHAIRMAN. Because of the west coast problem, it will be interesting to see what the costs are as a result of the west coast experiment. It will be a guidepost for a lot of us on the west coast who are concerned with shipbuilding, and a guidepost to all shipbuilders.

Do you have any questions, Senator Butler?

Senator BUTLER. Mr. Secretary, has there been any change—and I assume from your statement that there has been no change—in the basic maritime policy of this country insofar as the Department of Commerce is concerned?

Mr. ALLEN. That is correct.

Senator BUTLER. All you are suggesting now is that we wait another year and see?

Mr. ALLEN. That we wait another year and see, with the thought in mind that there are developments going on, the results of which cannot be ascertained.

Senator BUTLER. That raises the question: What is the basic maritime need?

Mr. ALLEN. That is one of the things that is rather difficult to ascertain.

Senator BUTLER. I thought the Department has some years ago established a figure, and if the Department figures went below that figure—with respect to the skills in the yard—then it would be a dangerous situation so far as national defense is concerned. Was any such study made or any figures arrived at?

Mr. ALLEN. I believe there were, mostly 10 years ago or so. I am not sure of the date. Since that time I think we all know the concepts of national defense requirements have been changed. At the moment I am not sure just what they are. That was also set forth in a recent study that they are changing, and I think they should be made more definite.

Senator BUTLER. That is the Murray report you are referring to?

Mr. ALLEN. The first one was. The last one was a discussion I heard of a report made some 2, 3, or 4 months ago.

Senator BUTLER. Mr. Secretary, may I ask what happened to the *Murray report? They recommended that 60 ships be constructed* each and every year, otherwise we would run into block obsolescence *and the American merchant marine would be in danger.*

Mr. ALLEN. That was a guide, I know, which came out, because it was considered at the other end of the Capitol, and I helped consider it. What the history has been since, I couldn't tell you. I would have to look at that.

Senator BUTLER. But you are more cognizant of the fact that as of this moment shipbuilding is on a steady decline in this country, are you not?

Mr. ALLEN. No, I am not. The backlog of orders, I understand, has decreased. The only figures I have seen lately—and those were within the last few minutes in the room were in a chart that showed the situation until October of 1959. This chart indicated that the work in the yards overall was pretty level, but the last period had shown an increase.

The private work had gone down considerably. The maritime segment was fairly steady and improving. The Navy work had gone up as much as the private had gone down, and the other work had been fairly steady.

The CHAIRMAN. The Navy shipbuilding has gone up?

Mr. ALLEN. That was the part that I saw.

The CHAIRMAN. Navy construction?

Mr. ALLEN. Yes, sir.

The CHAIRMAN. I think you had better look again at that.

Mr. ALLEN. The chart might be wrong, but that is what it shows. This is Navy shipbuilding in private yards.

The CHAIRMAN. That may be true, in private yards. But I think the overall Navy shipbuilding—and I could be wrong—has gone down quite a bit with the exception of some shift in emphasis on the submarines. The surface ship Navy construction program has been cut considerably. I think there has been more of a shift under the Vinson-Trammel Act which tries to achieve 50–50 allocation between private and Navy yards, but I think overall it has gone down considerably.

Mr. ALLEN. I didn't check the Navy situation at all.

Senator BUTLER. Mr. Secretary, wouldn't you say, on the basis of the present outlook, that the situation in the privately owned and operated shipyards is approaching the point where it may be said to be desperate?

Mr. ALLEN. "Desperate" is a kind of hard word to define. I would say it is less optimistic now than it was 4 years ago.

Senator BUTLER. Is it conducive to a steady employment rate up to the level that has been found by the Department of Commerce and by the Department of Defense to be the rate under which we cannot go with safety?

Mr. ALLEN. There is no question but that it is not up to the 36,000 in the Murray report, and I guess never has been, since the war.

Senator BUTLER. Does the Department of Commerce subscribe to that figure?

Mr. ALLEN. I would think now that we couldn't say that we would continue to, and I am not sure that we ever did. It hasn't been mentioned since I have been there.

Senator BUTLER. Then that goes back to the question I asked you first. Has there been any basic change in the thinking of the Department of Commerce insofar as the national maritime policy is concerned? Is your department willing, for instance, that a part of the ships be built in America, and other parts abroad if we don't have enough dollars to go around to do it all here?

Mr. ALLEN. No, we have never come to that conclusion. We have not had an opinion against the flag of convenience, or however it is designated, policy. Generally I think we have not changed the basic thought that the merchant marine should be sufficient to sustain the Defense Establishment as an auxiliary.

The CHAIRMAN. But the Murray report says in order to achieve that—give or take a few ships—there should be at least 60 a year, is that correct?

Mr. ALLEN. Sixty a year would support the 36,000 working force.

The CHAIRMAN. How many are in this year's budget? Fourteen; am I correct?

Mr. ALLEN. Fourteen maritime. That is the figure on the subsidized.

The CHAIRMAN. Fourteen is a far cry from sixty.

Mr. ALLEN. That is true, but I don't know the number of ships that are actually in construction. I think it will be quite a bit more than 14.

The CHAIRMAN. We will get that testimony.

Mr. BUTLER. May I ask you this direct question: Can you, on the shipbuilding program of 14 ships a year, sustain the skills and the shipbuilding capacity that the Department of Commerce deems to be necessary to the national defense?

Mr. ALLEN. Not on 14 ships.

Mr. BUTLER. How many will it take?

Mr. ALLEN. That I can't answer because I can't get it from the Defense Department.

The CHAIRMAN. There is lots of testimony from the Defense Department. Do you want me to refer you to some? I will give you books on it from the Defense Department.

Mr. BUTLER. The Department of Defense has gone out of its way to stress the absolute necessity of a stronger merchant marine. The President of the United States has said that it is truly the fourth arm of defense. The Military and Naval Establishments are fully and wholly subsidized. We have statements from the highest authority in our Defense Department that to keep the forces going, and to supply the material necessary to sustain our forces in the field, we must fulfill these merchant marine requirements.

Why are we dragging our feet? Why are we not building the 30 ships, if 30 is necessary? Suppose the Murray report is a hundred percent wrong. Suppose we say we will build 30 ships. Do you think that will sustain the potential that everybody says is necessary in the interest of the national defense?

Mr. ALLEN. I presume 30 would sustain 18,000 working force if 60 would take 36,000.

Mr. BUTLER. I know that you are interested in the American merchant marine as is the chairman of the Merchant Marine Subcommittee and I, and this committee as a whole. I know you want to achieve the objectives of the Merchant Marine Act. You know as well as I that they are not being achieved. How do we go about achieving them?

Mr. ALLEN. I agree that I want to see them achieved probably as much as anyone else. I do think, though—and this is a fairly well considered judgment—that there is room to doubt what the immediate future holds either subsidywise or defense requirements. I think there is doubt as to what kind of ships we should build for 20 years. On the basis of those three things, and maybe some others, I would say that at the moment we should keep the ground rules the same.

Mr. BUTLER. Mr. Secretary, isn't it perfectly apparent that in the event of any emergency, such as the Korean emergency, we would need vast amounts of ships?

Mr. ALLEN. It would depend upon the size of the emergency. If it were a limited war, I think that the general consensus is that we would have enough shipping. We would not have ships that would be entirely desirable, but we would have enough quantitative capacity.

Mr. BUTLER. Just a minute. In the Korean war we took 5 million people to Korea, didn't we?

Mr. ALLEN. I will take your figure. I don't know.

Mr. BUTLER. I don't know, either, but I think that is substantially correct. Do you know how many hundreds of millions of tons of petroleum products we had to convey to Korea? Do you know how much equipment we had to take? And do you know the amount of shipping that was required to do it?

Mr. ALLEN. I think 86 percent of the shipping went in commercial bottoms. I seem to remember that figure.

Mr. BUTLER. Do you really believe that as of this day we have an amount of shipping sufficient to sustain an action such as that in the event of any underseas warfare at all?

Mr. ALLEN. As I understand the Defense appraisals and other studies, we have quantitatively enough of a lift to take care of a limited war.

Mr. BUTLER. I know about quantitatively and a limited war, but qualitatively some of those ships are sitting on the mud bottoms of our rivers and would not be useful. I am talking about actual ships in being that would be good for the purpose and that could carry the materiel and troops that we need to transport in the event even of a limited war.

Mr. ALLEN. I think we have, and I take that in the authority of substantial reports from people who ought to know what they are talking about.

I think even the Maritime-Navy Agreement, that has been around a long time, says that we have the quantity of ships required.

(The summary and recommendations contained in the Maritime Status Report for May 1, 1959, follow. This report was prepared by the Joint Maritime Administration-Navy Planning Group:)

MARITIME STATUS REPORT

May 1, 1959

(Prepared by the Joint MarAd-Navy Planning Group)

1. SUMMARY OF REQUIREMENTS AND AVAILABILITIES

(a) General statement

(1) The United States is deficient in capability to meet national wartime requirements for merchant-type ocean shipping.

(2) Current deficiencies are both quantitative and qualitative, and applicable, in different degrees, to all three major categories of ships—passenger transports, dry cargo ships, and tankers.

(3) The present shortages, however serious, are less critical than the approaching block obsolescence of our passenger and cargo ships.

(4) Funds are not available nor budgeted to maintain our present capability.

(b) Passenger-transports

The small initial numerical deficits in passenger transport capacity are considered manageable. It is strongly emphasized, however, that there are serious qualitative deficiencies, particularly as to speed, in the available transports.

(*c*) *Dry cargo ships*

(1) The most serious numerical deficiencies during wartime occur in the category of dry cargo ships. The initial deficit is in excess of 200 national ships and the deficit in subsequent months will be substantially greater.

(2) Failure to replace obsolescent and overage ships with modern, high speed ships will result in still greater deficiencies.

(*d*) *Tankers*

A serious deficit in tanker capability will exist during mobilization now or in the immediate future, but currently scheduled construction is adequate to overcome this shortage by the end of fiscal year 1962.

2. RECOMMENDATIONS (SUMMARIZED)

In order to alleviate the above stated situation, certain specific steps should be taken as follows:

(*a*) Provide funds to:

(1) Increase the strength of the subsidized fleet to the limits permitted under the Merchant Marine Act, 1936, as amended.

(2) Construct the two superliners now authorized.

(3) Maintain NDRF ships in an adequate state of preservation.

(4) Reconvert certain former amphibious transports to freighters.

(5) Build certain national defense features into early replacement ships.

(6) Scrap 1,030 Liberty ships.

(*b*) Maintain effective U.S. control over U.S. owned merchant ships now registered under so called "flags of convenience" (Panama, Liberia, Honduras).

(*c*) Dispose of two reserve shipyards.

Mr. BUTLER. At the rate we are replacing our fleet, how long will we have that capacity—if we do have it, which I doubt?

Mr. ALLEN. If you take it by categories, I think we have sufficient tankers. We are having trouble in the employment of them, however. On dry cargo, with the ships that would be activated from the laid-up fleet and those afloat, we would have a sufficient number. On passengers, we would have ships that are slower than would be desirable, but, coupled with air lift, they would be sufficient in number.

Mr. BUTLER. But each year our capability would be less because we are not building our ships now with anything near the amount necessary to meet the requirements of national defense.

Mr. ALLEN. That is true if the requirement stays as high as it has been calculated to be in the past.

Mr. BUTLER. Could there be any reasonable expectation that it would not remain as high as that?

Mr. ALLEN. I think so.

Mr. BUTLER. Do you think if we had a limited war it would be a smaller war even than the Korean action?

Mr. ALLEN. That I couldn't say; I don't think anyone could say.

Mr. BUTLER. Then I will ask you this question: Do you think we should gamble that the next action we have will be equivalent to, or smaller than, the Korean action? Should this great country take the chance of being short on ships when they need them? And also of losing the skills; if you wait another year, you will lose a lot of the skills that we have because shipyards don't keep men around the yards for nothing. They work them or let them go, and when you lose those skills they are gone.

Mr. ALLEN. I think I would agree partially with that. I wouldn't want to lose the skills. But on the other hand, I am not at all convinced that we will lose them in the next year if we don't go up on the subsidy rate.

Mr. BUTLER. To get back to the subsidy, under the existing provisions of law you have substantially the same power now which this bill would ask for, do you not?

Mr. ALLEN. We have the power to take a bid, and if the subsidy rate should be computed at greater than 50 percent, there is an unlimited authority in the Maritime Administrator to negotiate for a bid within the 50 percent.

The CHAIRMAN. Someone will put that in the record, that section. Thank you.

(The section of the Merchant Marine Act of 1936 referred to follows:)

SEC. 502(b) The amount of the reduction in selling price which is herein termed "construction differential subsidy" may equal, but not exceed, the excess of the bid of the shipbuilder constructing the proposed vessel (excluding the cost of any features incorporated in the vessel for national-defense uses, which shall be paid by the Commission in addition to the subsidy), over the fair and reasonable estimate of cost, as determined by the Commission, of the construction of the proposed vessel if it were constructed under similar plans and specifications (excluding national-defense features as above provided) in a foreign shipbuilding center which is deemed by the Commission to furnish a fair and representative example for the determination of the estimated foreign cost of construction of vessels of the type proposed to be constructed. The construction differential approved by the Commission shall not exceed 33⅓ per centum of the construction cost of the vessel paid by the Commission (excluding the cost of national-defense features as above provided), except that in cases where the Commission possesses convincing evidence that the actual differential is greater than that percentage, the Commission may approve an allowance not to exceed 50 per centum of such cost, upon the affirmative vote of four members, except as otherwise provided in subsection 201(a). In any case where the Commission finds that the construction differential exceeds 33⅓ per centum of such cost and that the lowest bid of a responsible domestic shipbuilder is unreasonable, excessive, or collusive, the Commission may negotiate and contract with the view to construction in a domestic shipyard that is not unreasonable or excessive in cost or collusive in character. Where the Commission finds that the construction differential exceeds 50 per centum of such cost, the Commission may negotiate and contract on behalf of the applicant to build such vessel in a domestic shipyard at a cost which will reduce the construction differential to 50 per centum or less. In the event that the Commission have reason to believe that the bidding in any instance is collusive, it shall report all of the evidence on which the Commission acted (1) to the Attorney General of the United States, and (2) to the President of the Senate and to the Speaker of the House of Representatives if the Congress shall be in session or if the Congress shall not be in session, then to the Clerk of the Senate and the Clerk of the House respectively.

Senator BUTLER. Why would the department be reluctant to have the Congress restate as a national policy that such action could be taken by the Maritime Administrator?

Mr. ALLEN. The Maritime Administrator would still, under existing law, not be able to negotiate a contract where the subsidy would be more than 50 percent. But he could take a 51-percent case and negotiate in order to endeavor to bring it down to 50 percent or less.

Senator BUTLER. Mr. Secretary, let me ask you this other question which has some little bearing on this.

The 6-percent differential accorded to the west coast shipbuilding industry: could you use the 6-percent to increase the award above 50 percent, or is 50 percent the absolute ceiling which cannot be breached even with the 6-percent differential?

Mr. ALLEN. Under present law, I think 50 percent is not to be breached.

The CHAIRMAN. Except under 502(f), where you can negotiate.

Mr. ALLEN. But that is an allocation of 50 percent, plus the national defense feature.

Senator BUTLER. I didn't hear that.

Mr. ALLEN. If there is an allocation of shipbuilding under that section, the so-called Mailliard bill, then the additional amount that is required over and above the low bid of another yard is a national defense feature. It doesn't affect the subsidy rate.

The CHAIRMAN. I see the Chairman of the Maritime Board here, and I know he is listening to the testimony quite carefully. Mr. Morse I wish the Board would submit a statement for the record on just what you can or cannot do under that section referred to by Mr. Allen.

What is the interpretation of that section; whether the 50 percent is an absolute limitation or whether negotiation applies to the 6-percent—all of those factors.

You would like to have that?

Senator BUTLER. Yes.

The CHAIRMAN. Could you do that, or get your counsel to do that?

Mr. MORSE. Certainly.

(The matter referred to follows:)

MARITIME ADMINISTRATION,
February 16, 1960.

To: Hon. Warren G. Magnuson, chairman, Committee on Interstate and Foreign Commerce, U.S. Senate.

From: Maritime Administrator.

Subject: Limitation on construction differential subsidy under section 502(f); and authority to negotiate under section 502(b) when section 502(d) is applicable.

This is in response to your request made at the hearing on S. 2584 held on February 15, 1960, for information with respect to (A) limitation on the amount of construction-differential subsidy authorized under section 502(f) and authority to negotiate under that section; and (B) authority to negotiate under section 502(b) when section 502(d) is applicable.

(A) LIMITATION ON CONSTRUCTION-DIFFERENTIAL SUBSIDY UNDER 502(f) AND AUTHORITY TO NEGOTIATE UNDER THAT SECTION

Section 502(f) provides that the Secretary of Commerce may, under title VII and section 509, and the Federal Maritime Board may, under the rest of title V, with the approval of the President, allocate ship construction, reconstruction, reconditioning or remodeling if certain prescribed findings are made.

In making such allocation, the Secretary of Commerce or the Board may, after obtaining competitive bids negotiate with the bidders and with other shipbuilders and may contract at a price deemed to be fair and reasonable.

The amount of construction-differential subsidy under 502(f) is computed under section 502(b) as the excess of the lowest responsible domestic bid (excluding defense features) over the fair and reasonable estimate of the cost of building the vessel (excluding defense features) in a respresentative foreign shipyard, but not exceeding 50 percent of the lowest responsible domestic bid.

The excess of the price paid by the Secretary or Board over the lowest responsible domestic bid is paid by the United States as a cost of national defense.

The computation of the construction-differential subsidy where the 50 percent limitation comes into operation under section 502(f), and the computation of the national defense cost of the allocation can be illustrated as follows:

The construction-differential subsidy

If the lowest responsible domestic bid is $10,500,000, and the foreign cost of construction is $5 million, the difference ($5,500,000) is the construction-differential computed without regard to the 50 percent limitation. This limitation, however, limits the subsidy to 50 percent of the lowest responsible bid. Fifty percent of $10,500,000 is $5,250,000, which is the amount of the construction-differential subsidy that is payable.

The national defense cost

If the cost of building the ship in the shipyard to which the construction is allocated is $11,500,000, the difference of $1 million between this and the lowest responsible domestic bid ($10,500,000) is paid as national defense cost.

How the cost of the ship is shared

The cost of the ship, therefore, is shared as follows:

Construction-differential subsidy	$5, 250, 000
National defense cost	1, 000, 000
The ship operator pays	5, 250, 000
Cost of the ship	11, 500, 000

In this illustration the ship operator pays $5,250,000 which is $250,000 more than the foreign cost ($5 million). The difference between the lowest responsible domestic bid and the foreign construction cost in this illustration was 52.38 percent of the lowest responsible domestic bid, but the 50 percent limitation restricted the construction-differential subsidy to 50 percent of the lowest responsible domestic bid.

(B) AUTHORITY TO NEGOTIATE UNDER SECTION 502 (b) WHEN SECTION 502 (d) IS APPLICABLE

Section 502(b) provides that if the construction-differential (that is, the excess of the bid of the shipbuilder building the vessel over the fair and reasonable estimate of the foreign construction cost of the vessel in a respresentative foreign shipyard) exceeds 50 percent of the bid of the shipbuilder building the vessel, the Board may negotiate and contract to build the vessel in a domestic shipyard at a cost which will reduce the construction differential to 50 percent or less.

Section 502(d) provides that if the ship operator has his principal place of business on the Pacific coast, and if the lowest responsible bid of a shipyard on that coast does not exceed the lowest responsible bid on the Atlantic coast by more than 6 percent of such Atlantic coast bid, the Board shall approve the Pacific coast bid.

The General Accounting Office has ruled in a letter (B–140448) to the Federal Maritime Board, dated September 3, 1959, that when section 502(d) is applicable, the Board is not authorized to negotiate under section 502(b) unless the Pacific coast bid exceeds 212 percent of the foreign cost. If the foreign cost is $5 million, for example, the Board could not negotiate unless the Pacific coast bid exceeds $10,600,000.

If the Pacific coast bid is $10,600,000, and if the Atlantic coast bid is $10 million, the Pacific coast bid would have to be approved by the Board if the ship operator had his principal place of business on the Pacific coast, and if the foreign cost was $5 million, the Board could not negotiate.

On the foregoing fact, the 50 percent limitation would yield a construction-differential subsidy of $5,300,000, and the cost of the ship would be shared as follows:

Construction-differential subsidy	$5, 300, 000
Paid by ship operator	5, 300, 000
Cost of building ship	10, 600, 000

The foreign cost being $5 million, the operator pays $300,000 more for the ship than its foreign cost.

CLARENCE G. MORSE.

Senator BUTLER. Just one more brief statement I would like to put in the record in connection with some of the thinking of the Department of Defense, and then maybe one further question.

On February 21, 1959, Vice Adm. Ralph E. Wilson, Deputy Chief of Naval Operations (Logistics), furnished me a document reflecting the views of the Department of Defense on the subject of "Ocean Shipping To Support the Defense of the United States" containing these passages:

The primary mission of the American merchant marine is the normal task of transporting our domestic waterborne commerce and a substantial portion of our

foreign export and import ocean trade. The health of our industrial economy is dependent on sea transportation for the import and export of numerous raw materials and finished products. It is imperative that the world's foremost trader control sufficient merchant shipping to transport what we need when we need it.

A collateral and extremely important mission of the American merchant marine is the maintenance of a posture of strength and readiness that will contribute the maximum to our national security * * *

The present rate of new shipbuilding will not offset the rapidly approaching block obsolescence of the vast proportion of U.S.-controlled merchant-type tonnage—both active and reserve. There is an urgent need for increased emphasis on orderly ship construction

I have two questions. The first thing the admiral points out is that we must have sufficient shipping to carry out the requirements of the Merchant Marine Act in order to carry a normal or ordinary share of our commerce.

Secondly, that we must have a merchant marine of such a posture of strength and readiness that will contribute the maximum to our national security.

Have we such a merchant marine today?

Mr. ALLEN. It is difficult to answer that question.

Senator BUTLER. We don't have it if we have only a merchant marine sufficient to meet a police action in Korea or some similar quarter of the world. I think we don't have such a merchant Marine today. I think we can demonstrate that we don't have it.

The next question is: The admiral says that it is urgent that the need for more orderly ship construction be emphasized.

Do you agree with that?

Mr. ALLEN. Yes, I do, and that is the reason for the research and development program that everyone seems to recommend who studies the question It is the reason for my reference to changing types of ships, that seems to be indicated, and to changing and upgrading of the shipyards.

Senator BUTLER. But can we wait?

Mr. ALLEN. Let me finish, if I may. I think that if the shipbuilding precedes the improvements, it is the wrong order. If they are going to be improved, I think the change will show up rather quickly. There are so many things that are being worked on at the moment. Those ought to be under consideration before we change the subsidy rate.

Senator BUTLER. If the Defense Department proceeds on that hypothesis, we would never build anything because we all know that some of the things being built today for our national defense will be superseded a year or two later by something which is better, and when that is produced you will have to have something behind that. What we need is a merchant marine to meet the requirements of our national security now.

Admiral Wilson says it is essential that we have that. I don't think we have anything approaching that. I think we must now take care of the present need. I don't see any such great change in ship construction in the immediate future that would not make an ordinary dry carrying vessel built today serve its useful life in the service of the United States.

I believe hydrofoils and all those things are wonderful, but sometimes we can't see the forest for the trees. We have to get down to the immediate urgent need of the American public, and that is a

merchant marine with a maximum readiness and strength to meet national defense requirements.

I think we can demonstrate that we don't have anything approaching that.

The CHAIRMAN. John, you have had vast experience in this field, and I would like to ask you this question personally as John Allen with that experience and not as a member of the executive department. Do you think our merchant marine is now adequate?

Mr. ALLEN. That question has given me a lot of trouble in the last year.

The CHAIRMAN. It has given us a lot of trouble, too. I will give this background. We vote hundreds of millions of dollars for our defense, based upon what the Senator from Maryland so aptly said, knowing that some of the things we spend money on may be superseded in the next 2 or 3 years by some new technological advancements—but we do it because we want to be ready at the time. The merchant marine is part of that defense. I don't think there is a person who would say that it is adequate to take care of the needs. If we are thinking only of limited wars then we had better cut the defense budget in half.

Senator BUTLER. Mr. Chairman, here is another statement from Admiral Wilson's letter which touches directly on that point:

> The Department of Defense desires to emphasize that the existence of * * * active privately owned shipyards, together with skills of the shipyard workers and the capabilities of the tools, equipment, and facilities, is essential to the national defense. * * *
>
> Prompt and effective action should be taken to institute measures which will improve the operational readiness of the U.S. shipbuilding establishment, including the area of ship components manufacture. * * *

You couldn't get it any straighter than that, Mr. Secretary, and that is just in February of 1959.

Mr. ALLEN. I agree with that, and I would also say, in response to your question, that when I went down to the Department of Commerce I had in mind the uncertainty that I thought existed in just what the Department of Defense would really back when the chips were down.

I made a complete effort to get as close to the policy as I could. I believe that nothing that I have said is at variance with the overall defense policy.

The CHAIRMAN. But this question did give so much trouble to you and to me and to many of us that the President of the United States did say, in 1959, and in 1960, that this is a matter that should be looked into in order to keep the merchant marine, in effect—I can't quote his words—up to this standard of being the fourth arm of defense. He repeated it twice in messages to Congress. Since that time we have continued going down.

Senator BUTLER. May I ask one further question, and then I will have completed my examination.

If we are unable, through the improvement of productivity of labor or reduction of labor costs or reduction of materiel costs, to reduce the price of shipbuilding in America, under the act as it now stands, the probabilities are that we will have no shipbuilding orders. Is that correct?

Mr. ALLEN. I doubt that it would go down that far.

Senator BUTLER. You were up to 49.5 percent on your last orders, weren't you?

Mr. ALLEN. But that is 14 ships of—guessing—45 or 60. The others are not subject to subsidy. Coastwise shipping, the tanker industry, is always going to be a source of some——

Senator BUTLER. Let me ask this question: If we are unable to get a bid from a responsible shipbuilder to build a ship within the Merchant Marine Act of 1936, we would have no ship orders for at least another year. What would be the effect of such a contingency?

Mr. ALLEN. It would obviously cause unemployment to that extent, of both yards and men.

Senator BUTLER. It would also obviously imperil national defense, wouldn't it?

Mr. ALLEN. To that extent. I don't think that is going to happen within a year.

Senator BUTLER. Can we gamble on it? We have just had an increase in steel wages. You are probably going to have an increase in steel prices. I know everything that goes into a ship, if I am reading the newspapers correctly, and the prices have already advanced to some extent. I don't see how you can hope that we are going to get it cheaper. Can the United States of America, the great commercial power that we are, the bulwark of the free world, afford to take a chance or a calculated risk for 1 whole year of not having a ship contract let in the United States? Don't you think some provision should be made to put some discretion someplace so that if the contingency does happen that we can protect ourselves?

Mr. ALLEN. Whether you have to do that now is really the question.

Senator BUTLER. Have we the authority to do that?

Mr. ALLEN. We came to the conclusion that we shouldn't support an amendment to do that now. After all, as I said, the matter of negotiation of a bid that called for more than 50 percent has never yet been tried.

Senator BUTLER. In other words you are saying, going back to what you said before, that the shipyards are getting so squeezed now that they will build a ship for nothing just to keep their men working?

Mr. ALLEN. I don't think I said that.

Senator BUTLER. Substantially that. You are talking about competition being so great now that people are bidding lower, or you hoped they would bid a little lower on their ships to get the business.

Mr. ALLEN. I doubt that the competition is entirely on the matter of giving up profits. There are a few other things that competition brings forth.

Senator BUTLER. I personally don't think we should take that risk.

The CHAIRMAN. The Senator from Ohio has some questions.

Senator LAUSCHE. It is my understanding that the Department of Commerce opposes the adoption of this bill; is that correct?

Mr. ALLEN. That is correct.

Senator LAUSCHE. I observe from page 2 of your statement that in 1936 the differential in the construction cost ranged between 30 and 40 percent. Is that correct?

Mr. ALLEN. I think that is correct. It may have been even lower than 30 percent at the outset.

Senator LAUSCHE. And that at the present time the differential ranges between 48.4 and 52.1 percent?

Mr. ALLEN. That is correct.

Senator LAUSCHE. In other words, on the basis of what we have been doing in the United States, our competitive position has become worse than it was in 1936; is that correct?

Mr. ALLEN. The differential is greater.

Senator LAUSCHE. And if the differential is greater, it means that the cost of building in the United States has gone up, compared with the cost of building in the foreign nations which build?

Mr. ALLEN. That would follow.

Senator LAUSCHE. It is proposed that this bill raise the subsidy to a maximum of 65 percent.

Mr. ALLEN. The bill I believe would raise it to a maximum; there would be no percentage maximum.

Senator LAUSCHE. No percentage maximum?

Mr. ALLEN. That is right.

Senator LAUSCHE. In other words, Ohio——

The CHAIRMAN. If I may interrupt, the bill is intended, to have this clear, to leave the flexibility so that the Maritime Board could adopt a percentage, whether it be under 50 or over 50, at whatever amounts it may be.

Excuse me, I just wanted to clear that up for the record.

Senator LAUSCHE. I will clear it if the chairman will permit me to pursue my questions.

The CHAIRMAN. Yes, I will.

Senator LAUSCHE. What will be the situation if the differential goes beyond 65 percent; if we carry out this philosophy that we have to meet the differential, Mr. Allen? Would you care to answer that?

Mr. ALLEN. Obviously if it goes beyond 65 it will go to a higher percentage.

Senator LAUSCHE. Let's say it will go to 80, and they come in and ask that we subsidize up to 80 percent. Does that follow?

Mr. ALLEN. That would follow. I think possibly——

Senator LAUSCHE. Let me go further. And let's assume that the differential becomes a hundred percent, and they come in and ask for a hundred percent subidy. Where do we stand as a Government? My question is, have we nationalized the maritime industry, or have we allowed it to remain in private hands?

Mr. ALLEN. Obviously the industry would be owned and operated by private enterprise. The differential that would be paid by the Government would be a governmental interest in keeping that industry in existence for some purpose.

Senator LAUSCHE. Now then let's depart from the construction cost and go into the operating cost. If the same principle is applied to the operating cost, will it be possible for the maritime industry to remain in private hands?

Mr. ALLEN. Well, yes. I think it has to this point, and there is no limit on the subsidy in operating cost.

Senator LAUSCHE. My figures show that up until 1959—these are figures supplied by the Maritime Administration—we have provided $815 million in subsidies in the operating costs since the enactment of this law. Let's assume your subsidy in the operating cost goes up to 70 or 80 percent of full operating cost. Haven't you practically nationalized the industry?

Mr. ALLEN. I think not. In the first place, there is no proposal that all operating costs should be subsidized. And actually the costs

that are subsidized are those which provide for the performance of labor by Americans rather than by foreigners.

The situation there is, I think, exactly parallel to whether or not we should have the ships of the Navy manned by Americans or foreigners.

When you need a ship as an auxiliary for the Defense Establishment, it is very desirable that there should be a sufficient labor force of Americans available and in being, in employment, to make that facility immediately available. What is being paid for is not a cost that the operator would have if he were free to employ anyone that he pleased, but it is a cost that he is obliged to pay because it is highly desirable to have an American seaman force afloat.

Senator LAUSCHE. It is true that the cost of subsidizing the operation may not have gone up as far. But if the principle which is applied in providing the construction cost is applied and becomes effective in the operational cost, don't you finally have the Government providing all of the money that is necessary to operate the merchant marine?

Mr. ALLEN. No. In each case the operator provides the amount that his foreign competitor provides. He is on the basis of parity. The American operator gets no aid from the Government except the amount he gets to pay for having American shipyards used and having American labor used at sea.

Senator LAUSCHE. If our operating costs and construction costs go up, and the operating and construction costs of the foreign nations go down, don't we move more and more into governmental financing and operation?

Mr. ALLEN. I think no more than you do when the Government buys a plane from Boeing, or when it buys arms from General Motors, or buys automobiles from Ford. It is still Government money going in to buy something which the Government wants, but the operation is as much free enterprise as it ever was. The customer is different, but not the enterprise.

Senator LAUSCHE. I don't quite follow you in your thinking. In my opinion we inevitably lead to Government operation. Imperceptibly we are moving into it. And the more we subsidize, the closer we come to a nationalization.

Let me take a look at this——

Mr. ALLEN. Before we leave that, if I may, I think the contrary is true in the American merchant marine. When the Military Sea Transportation Service was organized, the percentage of Government cargoes and passengers that was carried by the Government-owned and operated ships was far greater than is now the case. The Government has gone the other way. It is buying its service from the common carriers.

Senator BUTLER. And the point is that they don't get any more than an amount sufficient to meet actual foreign competition in being. I think that is the important point.

Mr. ALLEN. If the American operator were free to employ the same seamen that his competitor employs, he wouldn't get any operating subsidy.

Senator LAUSCHE. May I put this question: Is it that we are beginning to price ourselves out of the industry through the cost of construction and the cost of operation?

Mr. ALLEN. That is a difficult question to answer. As I see it, the shipyards pay the American labor about the same amount that that labor could get if it didn't work in the American shipyards. They would go uptown and do something else and get the same pay. The shipyards of necessity, to get American labor, must pay an American wage based on the American standards of living. That is not true when you build a ship in another country. It is true that they pay their shipyard workers what those workers could get in another industry in that country. When you compare the two, you have a difference. The question becomes whether we need and want an American shipbuilding industry. The same thing goes for the people who are afloat. If they didn't get an American standard of living, they would come ashore and work and live like Americans ashore. They wouldn't work for a foreign wage that was far below the amount necessary to support a standard of living.

So you get back to the question of whether you want to maintain an American standard of living for those people, or whether you don't.

Senator LAUSCHE. I concur with that. But as to the facts, our competitive position is growing worse, either because our costs have gone up unduly or the earning power and the life of our competitors have gone down.

Mr. ALLEN. That one was too fast for me.

Senator LAUSCHE. Let me repeat it. The disparity between the cost of operating and building is growing wider.

Mr. ALLEN. I am not sure that that is true now.

Senator LAUSCHE. Is that one of the reasons why you are opposing the adoption of the bill?

Mr. ALLEN. That is one of the primary reasons. The differential cost seems to be hovering around 50 percent, and there is no very good reason in our opinion to believe that it must necessarily grow greater. That is, that the differential would grow greater. It is quite likely, or equally likely, that our costs can go up more slowly than the foreign costs.

Senator LAUSCHE. How long has it hovered around the margin of 48.4 to 52.1?

Mr. ALLEN. I think a year or so.

Senator LAUSCHE. You are of the belief, therefore, that there is no need of increasing the amount of subsidy that would be allowed?

Mr. ALLEN. Not only because it is hovering, but because we know that improvements are being made in the techniques, equipment, and layouts of American yards.

Senator LAUSCHE. On page 2 of your statement you further have this statement:

> The recent bids for the mariner-type ships for States Steamship show that between the first half of 1959 and November, shipyards in the United States reduced their bid figures.

Will you explain that and point out again why you consider that as a factor in opposing the measure before us?

Mr. ALLEN. One reason that we have that comes from the publication of the Committee of American Steamship Lines for January 1960, issue No. 1. It says, on page 6:

> U.S. ship prices continue to decline. Recent bids for the mariner-type ships for States Steamship Co. show that between the first half of 1959 and November shipyards have reduced their figures. Comparing the five low bids for American

mail on three ships, April 1959, with the five low bids for States Steamship's three ships, November 1959, shows the average price per like ship-ton has dropped about 4 percent, and the assessment of escalation has gone from about 11 percent in April to 7 percent in November.

That is a publication of the people most involved, the American subsidized lines.

Senator LAUSCHE. Is your department watching this entire problem for the purpose of making certain that the merchant marine will be adequate?

Mr. ALLEN. Certainly. The Maritime Administration is fully cognizant of the responsibilities of its office, and I think performs it very well.

Senator LAUSCHE. Did you have any knowledge of this bill being introduced, prior to your appraisal of it through its appearance in the Congressional Record?

Mr. ALLEN. The specific bill—I really don't know. I know the sympathies of the chairman. So it wouldn't be a surprise.

Senator LAUSCHE. The bill was not originated——

The CHAIRMAN. Thank you for the compliment.

Senator LAUSCHE. The bill was not originated in the Department of Commerce. Do you know whether that is right?

Mr. ALLEN. No, sir.

Senator LAUSCHE. Do you know whether it was originated in the office of the merchant marine?

Mr. ALLEN. I would doubt it.

Senator LAUSCHE. You would doubt it?

Mr. ALLEN. The office of the Maritime Administration?

Senator LAUSCHE. Yes.

Mr. ALLEN. I don't think it originated there. I think they would have consulted us before they put it in.

Senator LAUSCHE. That is all.

The CHAIRMAN. As a matter of fact, Mr. Allen, you were quite familiar with the public hearings we had on this matter in San Francisco in December, were you not?

Mr. ALLEN. Actually, I wasn't. I knew that you were out there, and I think I was invited, but I wasn't out there.

The CHAIRMAN. You were invited to testify. We had a big meeting of all the shipping people—operators, labor, and people who were interested, including mayors, the Governor of California, and quite a substantial number of people representing many walks of life—and we had public hearings in December.

Mr. ALLEN. There is no place I would rather have been to testify.

The CHAIRMAN. I thought we might catch you in the bay area, and that is why we invited you. We opened it up to the public. The result is—to tell the Senator from Ohio—there have been several conferences on this bill with the operators, the shipyard construction people, and everyone else, due to the fact that this past year there has been some concern about the hovering around the 50 percent. It is only natural that they would suggest that we take a look at it, so that we can revive what we consider a decline in our American shipbuilding, and in particular it was motivated by the fact that—as you pointed out earlier before the Senator from Ohio was here—that we now rank eighth or ninth in world shipbuilding.

Senator LAUSCHE. I heard that testimony.

The CHAIRMAN. I didn't know you were here then.

Mr. ALLEN. I think the hearings are very timely. That is a personal opinion.

Senator LAUSCHE. Are you familiar with the fact that we conducted a hearing last week in which the commercial air cargo carriers are urging that indispensably and with extraordinary high priority it is necessary, in order to save the Nation, to build a lot of long-range air-cargo carriers?

Mr. ALLEN. I knew that; yes.

Senator LAUSCHE. Are you familiar that the same argument was applied to that program as is being applied to this program as the reason why we ought to go ahead?

Mr. ALLEN. I would think it would be.

The CHAIRMAN. Are there any further questions?

Senator LAUSCHE. I have no further questions.

The CHAIRMAN. Are there any further questions?

Senator BARTLETT. I have no questions.

The CHAIRMAN. Thank you, Mr. Allen.

The Maritime Board will furnish the figures requested. I think it involves the whole 502 section.

Senator LAUSCHE. May the record show, on the basis of the figures which were submitted to me a year ago, that up to June 24,1959, the U.S. Government subsidized the merchant marine in its operating expense in the sum of $815,867,769; in the construction differential subsidies in the total amount of $200,522,725; and in reconstruction differential subsidies in the aggregate amount of $27,267,420.

If those figures are not correct I would like to have Mr. Morse send me figures that will correctly reflect the facts.

The CHAIRMAN. Let the record also show that there has been a recapture of over $234 million of that amount up to date. And let the record also show that when World War II broke out we spent about $17 billion to produce a merchant marine fleet that would take care of our defense, because we didn't have it. And let the record show that if we had taken one-tenth of that amount and kept an adequate merchant marine, we would have probably saved $2 or $3 billion at least in the hasty construction we were forced into at the moment.

And let the record show that because we didn't have ships, we paid Great Britain over a hundred million dollars to rent two ships—the *Queens*.

And let the record show that the American merchant marine hauled 95.6 of all the cargo to our Armed Forces abroad—all the dry-carrying and tanker-carrying vessels.

And let the record also show the testimony of the Defense Department reiterating over and over and over again that this is literally the fourth arm of defense.

And let the record show that there should come a time when we make a decision whether we should have an adequate merchant marine and if that decision is yes, then we should proceed under the 1936 act, which no one suggested we repeal—the spirit of the act.

Senator BUTLER. Mr. Chairman, I think the record should also show and a table should be inserted accurately reflecting the increase in ocean-carrying freight rates during the period of the war. It is my recollection in some cases they have increased almost 2,000 percent because America didn't have ships.

(The matter referred to follows:)

FEDERAL MARITIME BOARD,
Washington D.C., March 16, 1960.

HON. WARREN G. MAGNUSON,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: This will acknowledge the receipt of your letter of March 7, 1960, requesting information to be included in the printed hearing on S. 2584. Your inquiries and our replies thereto are as follows:

(1) What percentage does the cost of labor and material bear to the total cost in the construction of a ship such as a Mariner?

The ratio of labor and material to the selling price of a ship such as a Mariner will vary considerably with the state of the shipbuilding market. Labor and material might be as high as 95 percent of the selling price in an extremely competitive market, or as low as 80 percent during a period where shipyards are able to obtain favorable prices.

(2) Figures showing whether work in commercial yards has been level recently or gone down; and whether Navy work done in commercial yards is increasing.

The figures requested are indicated in tabulation of data on shipbuilding, ship repair, and shipyard employment in the principal commercial shipyards of the United States, 1955–60, enclosed herewith.

(3) Figures showing the increase in ocean freight rates during World War I and II.

This item has been discussed with members of your staff and we believe that material has been furnished you which includes the information you are requesting.

Sincerely yours,

THOS. E. STAKEM,
Vice Chairman, Federal Maritime Board.

Tabulation of data on shipbuilding, ship repair, and shipyard employment in the principal commercial shipyards of the United States, 1955–60

Approximate value of unfinished shipbuilding business underway in the private shipyards (in thousands of dollars) [1]			Dollar volume of repair work in principal private yards (all zones) (in thousands of dollars) [2]			Employment, shipbuilding and repair [3]			
Date	Commercial	Navy	Year	Commercial	Navy	Date	Commercial	Navy	Total
Jan. 1, 1955	$122,000	$501,000	1955	$218,814	$58,904	July 1955	14,503	19,762	34,265
Jan. 1, 1956	231,000	668,000	1956	328,389	62,001	January 1956	11,508	18,673	30,181
Jan. 1, 1957	949,000	704,000	1957	398,591	36,879	January 1957	27,509	15,327	42,836
Jan. 1, 1958	874,000	952,000	1958	275,511	41,297	January 1958	31,853	16,097	47,950
Jan. 1, 1959	659,000	1,060,000	1959	(4)	(4)	January 1959	26,636	25,670	52,306
Jan. 1, 1960	(4)	(4)	1960	(4)	(4)	January 1960	21,271	31,111	52,382

[1] As reported by Shipbuilder's Council of America, Jan. 1, 1960, figures not available.
[2] As reported by Shipbuilder's Council of America, 1959 and 1960, figures not available. All MSTS work is included as commercial work in tabulation.
[3] As reported by Bureau of Labor Statistics and Naval Industrial managers. Includes imployment in principal commercial shipyards capable of building large oceangoing ships, except the Electric Boat Co., which specializes in naval subs and normally employes about 4,000 men.
[4] Not available.

The CHAIRMAN. Thank you, Mr. Allen.

Senator BUTLER. I think the record should show both World Wars. Let's have the whole record on both wars.

(The matter referred to follows:)

OCEAN FREIGHT RATES—DOMESTIC AND FOREIGN

DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C. June 5, 1950.

Hon. WARREN G. MAGNUSON,
U.S. Senate.

DEAR Senator MAGNUSON: Reference is made to your letter of November 22, 1949, and to subsequent conversations with Mr. Ralph Dewey of your staff with reference to freight rates during World Wars I and II.

Attached hereto is statement showing comparison of actual and percentage increases made in liner frieght rates on representative commodities for World War I and World War II. Also attached is a supporting table showing the sources from which the World War I freight rates were obtained and the year by year trend of such rates.

In all instances the 1914 rates represent those which were in effect prior to the start of World War I of that year. The wartime 1918 rates represent, for the greater part, those established by the Emergency Fleet Corporation for vessels operated or controlled by that agency. Many of the vessels which operated under its tariffs were chartered, and we believe it can be fairly stated that many of the high frieght rates established by the Emergency Fleet Corporation can be attributed to the high charter hire which our Government had to pay to get the tonnage. In our research we have also run across evidence that uncontrolled freight rates existed which went even higher.

All freight rates for World War II were taken from conference tariffs officially on file with the U.S. Maritime Commission with the exception of the rate on grain from North Atlantic ports to Havre, France, for 1938. This rate was estimated in view of the fact that grain rates were on an "open" basis at the time. The rates for 1945 include war surcharges.

It is regretted that rates for a greater number of commodities and for a greater number of trades could not be obtained. This was because of the inability to locate accurate rate data for the years 1914–18 which could be followed through with any continuity. This difficulty arose from the long lapse of time and the fact that until the U.S. Shipping Board came into existence no organization existed to collect and act as a repository for such data.

While complete records of all commodities and trades are available for the years 1938 and thereafter compilation has been limited to those commodities and trades on which 1914–18 comparisons were available as it was understood the purpose of your request was to determine what happened in World War I and World War II freight markets.

The comparisons in the attached statement are most revealing. The compilation shows that the level of those rates existing before the First World War was much lower than comparable 1938 rates just previous to World War II. This is not surprising as costs had arisen considerably, in the 24-year period. However, the percentage of increase of that level which took place during World War I far exceeded the percentage of increase which took place during World War II. Of course, starting at a lower base level it would be expected that the percentage of increase in the first period would be higher than in the second period, but it could not have been expected that the increase should be 1,000, 2,000, and 3,000 percent as against an increase of 482 percent on wheat, which is the highest percentage of increase shown in the second period and is explained by the fact that the 1938 rate used on wheat was the minimum listed that year and not the average.

It also would not have been expected that the rates on specific commodities during World War I, starting as they did on a lower level, would have reached levels far higher during that war than were reached during World War II. Such appears to be the case on every commodity trans-Atlantic; also on general cargo, iron and steel trans-Pacific. The example of cotton presents a most outstanding case. At the end of World War II the rates on cotton had risen to $38.64 to Havre; whereas in World War I the rate rose to $145.60 or nearly five times as much.

This marked disparity between the increases during the two wars can be explained first and foremost by the fact that in the second war the United States had a merchant fleet which could and did support every effort of the United States to control the rates through the Ship Warrant Act and otherwise. Without that

feet it would have been very difficult to have controlled the rates to be charged by foreign-flag vessels using our ports. It is also significant that during World War I the carriers allowed most of the steamship conferences which had established the rates prior to the war to dissolve or to become inactive, and there was, therefore, no opportunity for joint expression by the carriers on runaway rates. During the Second World War this mistake was not allowed to occur and the steamship conferences were continued and were utilized very extensively in policing and in helping to establish the freight rates.

It is hoped that you will find this rate information of value.

Sincerely yours,

JOHN T. KOEHLER,
Acting Administrator.

TABLE XVI–A.—*Comparison of actual and percentage increases made in liner freight rates on representative commodities, World War I and World War II*

[Rates are per ton of 2,240 pounds except as otherwise specified]

(A) UNITED STATES NORTH ATLANTIC

	World War I			World War II		
	1914	1918	Percent of increase	1938	1945	Percent of increase
To United Kingdom:						
Wheat	$1.90	$25.65	1,250	[1] $2.69	$15.68	482
Flour	2.24	21.41	855	5.15	15.68	204
Provisions	4.86	66.00	1,258	14.56	21.17	45
Apples, ordinary stowage, per barrel	.669	3.00	348	.80	2.10	162
Lumber, soft	3.696	66.00	1,685	14.56	25.98	78
General cargo, per 40 cubic feet	4.25	66.00	1,452	20.00	31.50	57
To Havre, France:						
Grain	2.28	74.95	3,187	[2] 3.75	14.17	278
Flour	4.032	75.00	1,760	4.928	15.456	213
Provisions	6.72	66.00	897	14.00	23.18	65
General cargo, per 40 cubic feet	5.00	66.00	1,220	20.00	34.50	72
To Genoa, Italy:						
Grain	3.14	92.47	2,844	8.96	16.80	87
Flour	4.256	92.49	2,073	8.96	16.80	87
Provisions	7.30	75.00	927	16.00	30.00	88
General cargo, per 40 cubic feet	6.08	75.00	1,117	22.00	37.50	70

(B) UNITED STATES GULF (NEW ORLEANS)

To United Kingdom:						200
Cotton, high density	$6.272	$140.00	2,132	$11.20	$33.60	162
Cottonseed cake	2.43	[3] 21.90	801	6.00	15.75	184
Flour	4.032	23.97	494	5.60	15.90	110
Lumber, soft, per 1,000 feet	7.30	88.38	1,110	15.00	31.50	
To Havre, France:						245
Cotton, high density	7.84	145.60	1,757	11.20	38.64	157
Cottonseed cake	3.16	[3] 33.60	998	6.00	15.46	155
Flour	4.032	75.00	1,760	6.05	15.46	141
Lumber, soft, per 1,000 feet	7.30	130.00	1,680	15.75	37.95	
To Genoa, Italy:						160
Cotton, high density	8.512	156.80	1,742	12.32	32.00	87
Cottonseed cake	5.35	[3] 30.24	465	8.96	16.80	87
Flour	4.928	92.49	1,776	8.96	16.80	88
Lumber, soft, per 1,000 feet	8.82	150.00	1,600	18.75	35.40	

(C) UNITED STATES PACIFIC

To Asia, east coast:						
Flour, per 2,000 pounds	$3.50	$20.00	471	$7.00	$21.93	213
Lumber, per 1,000 feet board measure	8.00	40.00	400	15.50	41.85	170
General cargo, per 2,000 pounds or 40 cubic feet	10.00	45.00	350	18.00	35.10	95
Iron and steel, per 2,000 pounds	3.60	[4] 30.00	733	6.00	20.25	237

[1] Minimum rate; lines had privilege charging higher rates dependent upon market and other conditions.
[2] Estimated rate; conference rate "open."
[3] Rate as of Jan. 1, 1916; subsequent rates unknown.
[4] As of Jan. 1, 1916; subsequent rates unknown.

TABLE XVI–A (1).—*Supporting statements showing source and year-by-year trend in liner freight rates during World War I*

[Basis for World War I rates shown in table XVI–A]

(A–1) UNITED STATES NORTH ATLANTIC

	1914		1916		1917		1918	
To United Kingdom:								
Grain, per bushel	(A)	$0.051	(A)	$0.507	(SB)	$0.687		
Flour, per 100 pounds	(A)	.10	(A)	1.00	(J)	.505	(J)	$0.956
Petroleum, per 2,240 pounds	(SB)	4.00			(SB)	50.00	(J)	[1] 128.00
Provisions, per 100 pounds	(A)	.217	(A)	1.25	(E)	2.679	(E)	2.946
Lumber, soft, per 100 pounds	(A)	.165	(A)	1.20	(E)	2.679	(E)	2.946
Apples, per barrel	(A)	.669	(A)	1.25			(E)	3.00
General cargo, per 40 cubic feet	(A)	4.25	(A)	25.20	(E)	60.00	(E)	[2] 66.00
To Havre, France:								
Grain, per bushel	(A)	.061			(E)	2.008	(E)	2.008
Flour, per 100 pounds	(A)	.18	(A)	1.50	(E)	3.348	(E)	3.348
Provisions, per 100 pounds	(A)	.30	(A)	2.00	(E)	2.679	(E)	2.946
General cargo, per 40 cubic feet	(A)	5.00	(A)	35.00	(E)	60.00	(E)	[3] 66.00
To Genoa, Italy:								
Grain, per bushel	(A)	.084	(A)	.608	(E)	2.388	(E)	2.477
Flour, per 100 pounds	(A)	.19	(A)	1.75	(E)	3.906	(E)	4.129
Provisions, per 100 pounds	(A)		(A)	1.75	(E)	3.013	(E)	3.348
General cargo, per 40 cubic feet	(A)	6.08	(A)	30.00	(E)	67.50	(E)	[4] 75.00

(B–1) UNITED STATES GULF

To United Kingdom:								
Cotton, per 100 pounds	(A)	$0.28	(A)	$3.00	(J)	$6.50	(J)	$6.25
Cottonseed cake, per 2,240 pounds	(A)	2.43	(A)	21.90				
Flour, per 100 pounds	(A)	.18	(A)	1.01	(J)	.589	(J)	1.071
Lumber, soft, per 1,000 feet board measure	(A)	7.30	(A)	12.32			(E)	[5] [6] 88.38
To Havre, France:								
Cotton, per 100 pounds	(A)	.35	(A)	2.50	(E)	6.25	(E)	6.50
Cottonseed cake, per 2,240 pounds	(A)	3.16	(A)	33.60				
Flour, per 100 pounds	(A)	.18	(A)	1.50			(E)	[5] 3.348
Lumber, soft, per 1,000 feet board measure	(A)	7.30	(A)	115.00	(E)	[5] 130.00	(E)	[5] 130.00
To Genoa, Italy:								
Cotton, per 100 pounds	(A)	.38	(A)	2.25	(E)	6.75	(E)	7.00
Cottonseed cake, per 2,240 pounds	(A)	5.35	(A)	30.24				
Flour, per 100 pounds	(A)	.22	(A)	1.35	(E)	[5] 3.906	(E)	[5] 4.129
Lumber, soft, per 1,000 feet, board measure	(A)	8.82	(A)	100.00	(E)	[5] 150.00	(E)	[5] 150.00

(C–1) UNITED STATES PACIFIC

To China (Hong Kong):								
Flour, per 2,000 pounds	(A)	$4.00	(A)	$9.00	(J)	$15.00	(J)	$20.00
Lumber, per 1,000 feet board measure	(A)	10.00	(A)	17.00	(J)	25.00	(J)	40.00
Iron, steel, per 2,000 pounds	(A)	3.60	(A)	30.00				
General cargo, per 2,000 pounds or 40 cubic feet	(J)	10.00	(J)	22.50	(J)	25.00	(J)	45.00

[1] Lubricating oil.
[2] Johnson report shows rate of $140.
[3] Johnson report shows rate of $96.67.
[4] Emergency Fleet Corp., tariffs show rate of $90, July 23 to Aug. 1, 1918.
[5] Rate from U.S. North Atlantic ports, gulf rates same or higher.
[6] Converted to 1,000 feet board measure on basis of 3,000 pounds equals 1,000 feet.

(A).....Indicates source, Alexander report, 64th Cong., 1st sess., Rept. No. 659.
(SB).....Indicates source, U.S. Shipping Board Annual Report, 1917.
(E).....Indicates source, tariffs of Emergency Fleet Corp., published in Annual Report of President of the U.S. Shipping Board Emergency Fleet Corp., 1919.
(J).....Indicates source, U.S. Shipping Board Report, "Ocean Freight Rates and Terminal Charges," by Emory R. Johnson, 1919.

The CHAIRMAN. It is now 10 minutes to 12. We have three other witnesses on this particular bill. The Administrator of the Maritime Administration is here, and he may wish to offer testimony on this, too. Mr. Shapiro I see is here, and he has some testimony to offer. Also Mr. Nemec, of Lykes Lines of New Orleans.

We also have S. 2618, in which the Senators from Alaska have an interest. We will have to pass over the other witnesses in S. 2584 and proceed to S. 2618 so that they can be accommodated in this matter of deep interest to them.

Witnesses on S. 2584 will be heard tomorrow morning when we resume at 10 o'clock.

(Thereupon the committee proceeded to the consideration of other business, at 11:53 a.m., this day.)

AMENDMENT TO THE MERCHANT MARINE ACT, 1936

(Construction Differential Subsidy)

TUESDAY, FEBRUARY 16, 1960

U.S. SENATE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The committee was called to order at 10 a.m., in room 5110, New Senate Office Building, Hon. Warren G. Magnuson (chairman) presiding.

The CHAIRMAN. Now, we will go back to S. 2584, the 50-percent ceiling construction subsidy legislation.

I asked the Chairman of the Maritime Board yesterday to give us some testimony today on this matter. I see the Chairman is here.

We will be glad to hear from you on S. 2584. We heard a great deal from John Allen, the Under Secretary of Transportation, on this matter.

STATEMENT OF HON. CLARENCE G. MORSE, CHAIRMAN, FEDERAL MARITIME BOARD

Mr. MORSE. Good morning, gentlemen.

I do not have a prepared statement.

The CHAIRMAN. Maybe the chairman could help here.

The testimony yesterday of Mr. Allen, in effect, was that they didn't think the passage of the legislation at this time might be necessary because he had hopes that the cost of shipbuilding would be on the downgrade, both foreign and domestic. Therefore, as long as the matter was now hovering between 48 and 52 percent, he had hopes that it would remain in future contracts below the so-called 50-percent limitation.

I pose that question to you, whether or not, from your experience on the Maritime Board, that you personally entertain such hopes yourself on this matter.

The Board has had charge of all of these contracts, and it has watched this gap, as it were, between the foreign shipbuilding and the domestic shipbuilding get wider and wider, and they have also watched the necessity, under the law, of getting up to the 50-percent limitation.

The Board, of course, in every case doesn't set this itself. It is based on the cold figures of the difference under the law. The Board has no desire to make it 51 or 52 or 48. You just have to do under the law what you must in the best way you can judge it.

Mr. MORSE. Correct.

The CHAIRMAN. You make studies every year, continuing studies, on foreign shipbuilding costs. I think you get the average fairly accurate.

Mr. MORSE. We think we do, quite accurately.

May I answer your question a little bit differently than you asked? I am not testifying in opposition to the administration position as indicated by Mr. Allen.

The CHAIRMAN. I understand.

Mr. MORSE. There are a half dozen points or so that I think should be called to the attention of this committee.

First, the 1936 act contemplates parity. If the operator pays more than the foreign cost, that is, if construction subsidy rate exceeds 50 percent, then parity is not achieved.

Secondly, the construction subsidy is a subsidy to the shipbuilders and not to the shipowners.

Thirdly, if for national defense reasons we need a shipbuilding capability—and that in my opinion is the basis for construction subsidy and the requirement that subsidized vessels be built in U.S. yards—then the Government, rather than the shipowner, should pay the cost insofar as it exceeds the foreign cost.

Fourth, if the construction subsidy cost becomes too burdensome, then the Congress should review whether the construction subsidy program is required at all, irrespective of whether it is above or below 50 percent.

Fifth, in my opinion the existence of the 50-percent ceiling on construction subsidy fails to serve as a governor on American bidding because, (*a*) some recent bids have exceeded 50 percent despite section 502 being the 50-percent ceiling; (*b*) American bidders will have to know in advance of the placement of his bid what the Maritime Administration will determine to be the estimated foreign cost in order for him to be sure that he doesn't double the foreign cost, and they don't know in advance what our estimate of foreign cost will be; (*c*) the American bidders are having to compete against all other Americans on a purely competitive basis.

Sixth, as a Board member, I am not in favor of forcing an operator to proceed with building where 50 percent is breached, despite contractual obligation, because it breaches the parity principle and because of increased difficulty we as a Board would have in finding economic feasibility under sections 601, 7064, and 1104(c) of the statute, and article 1.9 of the subsidy contract.

The result may mean less or no shipbuilding if the 50 percent is breached.

Seventh, in my personal opinion the American yards cannot reduce their selling price to a degree which exceeds the ability of foreigners to reduce their selling prices. This would mean a reduction of $2 on the American bid for each $1 reduction on the foreign bid.

While some reduction in building costs might be made by curtailing mounting costs in yards, and increasing productivity, such reduction is speculative as to amount. In all events, a major modernization program by a yard must be accompanied by an award of a large number of ships to that yard to justify the capital expenditures for modernization.

Finally, section 101 contemplates both a healthy ship-operating and shipbuilding industry. In my opinion this contemplates efficient shipyards and reasonable profits to the builders.

The CHAIRMAN. We thank you for your views, Mr. Morse. They are views based upon the cold, practical operation of the shipbuilding sections of the Merchant Marine Act of 1936. Despite the fact that I don't think the Board particularly likes to see any time when the 50 percent spills over, those are the cold, practical facts of the situation.

I do see the point you make on the foreign yards, that it is a 2-for-1 reduction, and I don't see how we can keep up with that if they want to sharpen their pencils and get down further. It is most difficult. It is 2 for 1, rather than even. I don't think we can keep even, do you, sometimes, the way they operate? It is pretty difficult.

Mr. MORSE. It is very difficult to do so.

The CHAIRMAN. Are there any questions?

Senator BUTLER. I have some.

Does the Senator from Ohio have some?

The CHAIRMAN. The Senator from Ohio.

Senator LAUSCHE. Obviously the differential in the cost of building has grown wider rather than less since the time the basic bill was passed.

Is that correct?

Mr. MORSE. That is correct.

Senator LAUSCHE. The testimony yesterday was that the differential, I believe, in 1936, was about 36 percent—36 or 38 percent.

Mr. MORSE. In that area.

Senator LAUSCHE. And it is now up to 48 to 52; is that correct?

Mr. MORSE. Yes, sir.

Senator LAUSCHE. What is the cause for the fact that our cost has gone up and the cost of the foreign countries has not gone up?

Mr. MORSE. The more rapid increased labor cost and material cost on the American side than on the foreign side.

Senator LAUSCHE. That is the principal reason?

Mr. MORSE. Yes, sir.

Senator LAUSCHE. That is, labor cost and material cost?

Mr. MORSE. Right.

Senator LAUSCHE. Do you feel that the steel settlement will have some impact on the cost in the United States of building ships?

Mr. MORSE. I think it is bound to have an impact.

Senator LAUSCHE. And as our labor costs go up, the ability to compete with the foreign producer of ships goes down?

Mr. MORSE. Correct. We can't compete with foreigners at the present time under any circumstances, on an even basis.

Senator LAUSCHE. Does it follow, then, as we keep increasing the price of building ships, that the sudsidy of the Government must, of necessity, be increased correspondingly?

Mr. MORSE. To the extent that the foreign cost does not follow up as rapidly as the domestic cost, it would mean an increased subsidy by the Government.

Senator LAUSCHE. Would this, then, in your opinion mean that from the standpoint of building ships, we are pricing ourselves out of the market?

Mr. MORSE. Yes, sir. We are priced out of the market, in the international market, at the present time. But I might mention to you, Senator Lausche, that there were a number of ships contracted in American yards by foreigners for foreign operation during the Suez situation.

Senator LAUSCHE. During the Suez situation?

Mr. MORSE. Yes. But that was for one major reason. Despite our higher cost they were able to get a more prompt delivery so that they could make up their excess capital cost on their earnings.

Senator LAUSCHE. Would you express an opinion on this conclusion of mine: That if the price of building goes up, and if we keep aggravating our ability to compete, the Federal Government will have to contribute to the extent that we are increasing our prices and taking ourselves out of the market?

Mr. MORSE. So long as we require a shipbuilding capability, that is the fact.

Senator LAUSCHE. In this case that we have before us now, it is fair to say that to the extent the price of building has been increased, the taxpayers of this Nation will have to make up that increased price in the shipbuilding industry?

Mr. MORSE. Correct.

Senator LAUSCHE. Your position is that——

Mr. MORSE. That is in respect of vessels that receive construction subsidy.

Senator LAUSCHE. Your position here is that under the purpose of the 1936 act it was intended that we will establish a parity; is that correct?

Mr. MORSE. It was intended that the operator should be on a parity basis as to ship acquisition cost and as to his operating cost with his foreign-flag competitor.

Senator LAUSCHE. And that so long as that purpose remains unchanged, there is nothing that we can do except keep increasing the subsidy to correspond with the increased cost of building in the United States; is that correct?

Mr. MORSE. That is correct, as long as the legislation remains as it is.

Senator LAUSCHE. Do you see any possibility that the condition will grow worse as time goes on? I know you are looking into the future.

Mr. MORSE. It is difficult to answer that. The trend has been over the last 20-odd years for an increase in the spread of shipbuilding costs, and I see nothing in the immediate future which would indicate that the foreign cost level will increase more rapidly than the American cost level.

The CHAIRMAN. Then it would be fair to assume that as time goes on the probability is that we will have to lift the ceiling above the 65 percent?

Mr. MORSE. I don't know where you get the 65 percent figure.

Senator LAUSCHE. What does the bill provide?

Senator BUTLER. No limit.

Senator LAUSCHE. Then we have reached the stage where there is no limit at all. Is that what the bill is? That is, that you are to provide the subsidy for the differential, regardless of what the amount is?

Mr. MORSE. That would be the effect of the bill; yes, sir.

Senator LAUSCHE. And that differential might be 60, 65, 80, or 90 percent.

The CHAIRMAN. Or 40.

Senator LAUSCHE. Or 40.

Mr. MORSE. It seems unlikely to me that we would reach even 65 percent in the foreseeable future.

Senator LAUSCHE. Are you sufficiently familiar to be able to tell why they placed a limitation of 50 percent on it when the law was passed?

Mr. MORSE. My recollection is that—we had this researched at one time—they put that on as an arbitrary figure because they thought we would never achieve that 50-percent status.

Senator LAUSCHE. Last year, when we passed the bill for the building of the two superliners, did you have any idea that this year they would be coming in for an increase in the building of the ordinary cargo-carrying subsidy?

Mr. MORSE. I am not surprised that they have. I don't recall that anyone spoke to me about it. But I was aware that the differential was gradually increasing, and had been for the last number of years.

Senator LAUSCHE. Maybe you can give me this information. We are now dealing with ship construction. I would now like to go into the subject of ship operation. Has the differential in the cost of operating the ships gone up also?

Mr. MORSE. The dollars we pay have gone up, but I don't think that the differential has gone up substantially. We are paying about 75 cents on the dollar on seafarers' wages, between 75, 80 cents, and $1, is being paid by the Government. In other words, the foreign competitor's wage costs, the manning of the ships, is roughly a quarter of what it is with the domestic operator.

Senator LAUSCHE. Then the taxpayers of the country are paying three-quarters of the cost of operating the ships?

Mr. MORSE. Of the manning costs.

Senator LAUSCHE. Of the manning costs?

Mr. MORSE. Yes, sir.

Senator LAUSCHE. What percentage of the total cost is reflected by the manning cost of operation?

Mr. MORSE. I would have to hazard a guess on that. I will be glad to supply it for the record.

Senator LAUSCHE. Let's put it a different way. The taxpayers are paying 75 percent of the manning costs of the merchant marine.

Mr. MORSE. The subsidized portion.

Senator LAUSCHE. What items go into the nonmanning costs?

Mr. MORSE. Do you mean that we subsidize? We subsidize four at the present time: manning, subsistence, maintenance, and repair, and insurance, to the extent that those items are in excess of the like costs of the foreign competitors.

Senator LAUSCHE. What percentage of the nonmanning costs do we subsidize?

Mr. MORSE. I can't answer that offhand. I will have to supply that for the record. It varies. As I recall in our maintenance and repair item it is anywhere from 40 to 50 percent.

Senator LAUSCHE. I wish, Mr. Morse, that you would prepare a statement showing the figures on this last question.

Mr. MORSE. I can do it very readily.

(The statement referred to follows:)

FEDERAL MARITIME BOARD,
Washington, D.C., March 18, 1960.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Replying to your letter of March 9, 1960, we are pleased to transmit the information listed herein for inclusion in the printed record of your hearings on S. 2584.

(1) The percentage of nonmanning costs subsidized by the Government is shown in the following tabulation of the operating costs of all subsidized voyages terminated in 1958, the latest for which this information is available for the entire year:

	Amount	Percent
Subsidizable costs:		
Wages	$172,755,847	31.06
Subsistence	21,809,331	3.92
Maintenance and repair	27,789,792	5.00
Hull and machinery insurance	14,401,791	2.59
Protection and indemnity insurance	17,401,045	3.13
Nonsubsidizable costs	301,998,267	54.30
Total vessel operating cost	556,156,073	100.00

Excluding wages, therefore, the percentage of subsidizable operating costs, in relation to the total vessel operating cost, amounts to 14.64 percent. It must be borne in mind, of course, that these cost figures are subject to audit and, in a number of cases, the actual rates of subsidy have not yet been determined or published.

(2) There is attached hereto a copy of page 584 of the Maritime Administration budget estimate for the fiscal year 1961, which lists the amounts of subsidy accrual and recapture by calendar year, beginning with 1947 and extending through 6 months of 1961. A comparison of the totals for this period shows that 13.65 percent of the moneys expended for subsidy is expected to be recovered.

(3) A copy of a "Summary of 1961 Budget" is attached hereto, which shows the amounts appropriated in 1960 and requested for 1961 for both ship construction and operating-differential subsidies. The net amount of operating-differential subsidies owed and/or paid by the Government to subsidized ship operators since the beginning of the subidy contracts under the Merchant Marine Act, 1936, as amended, is $962,619,489. As subsidy figures are subject to change through recapture, none of the transactions can be considered final until the contracts are complete and adjusted.

With respect to construction-differential subsidies for new construction, the total amount paid out as of June 30, 1959, was $498,661,349. This figure is subject to adjustment, however, because of subsidies amounting to $83,527,424 which were applicable to vessels reacquired by the Government and vessel losses covered by insurance, as well as adjustments of $210,273,075 in construction subsidies applicable to the prices of vessels sold under section 9 of the Ship Sales Act of 1949, thus making the residual cost of construction subsidies $204,860,850.

(4) With respect to operators having to pay in excess of parity with their foreign competition, to date there has been no actual payment in excess of parity by any shipowner, but it is expected that four construction awards made in 1959 and 1960 may fall in this category. A tabulation, showing the excess cost based on estimates made at the time of the contract awards, is attached hereto. The Grace Line contract is on a fixed-price basis, so the estimated excess cost should not be subject to any appreciable change. The other contracts are on an adjusted-price basis, subject to material and labor escalation, and it is not possible at this time to state positively what the actual cost to the owner will be. According to present indications, increases in material and labor costs may not be as great as originally expected, with the result that the excess payments by the owner may well be less than those shown on the tabulation.

Sincerely yours,

THOS. E. STAKEM, Jr., *Vice Chairman.*

Senator LAUSCHE. If this bill is adopted, the formula of providing the subsidy for shipbuilding will be practically the same as that for providing the subsidy in the ship operation.

Mr. MORSE. That is correct.

Senator LAUSCHE. There will be no limit?

Mr. MORSE. That is correct; 75 or 80 percent of our subsidy for operations is for seafaring wages.

Senator LAUSCHE. Repeat that.

Mr. MORSE. Of our total appropriation for operating subsidy, 75 or 80 percent is paid to American seafaring personnel.

Senator LAUSCHE. Then 20 to 25 percent is then paid for the nonmanning?

Mr. MORSE. For the other three items that we subsidize.

Senator LAUSCHE. I think that is all.

Senator BUTLER. Mr. Chairman.

The CHAIRMAN. The Senator from Maryland.

Senator BUTLER. Mr. Administrator, I want to compliment you on a very excellent statement. It is a statement that I think is very enlightening. In the first place, it shows that if we are to continue the Merchant Marine Act of 1936, we must have parity. And the Government must make the stern choice—if it needs the defense potential of the American Merchant Marine—it must be willing to pay for it the same as it does for its rockets and tanks and everything else which have increased in value. Also, you, Mr. Administrator, have been very forthright in your statement, and I personally appreciate it.

I would like to ask you one question in connection with the examination of the Senator from Ohio, and then I have several questions that I would like to ask you on my own.

We have, according to figures introduced yesterday, spent some $800 million over the life of this program for various subsidies to shipowners and operators, have we not?

Senator LAUSCHE. Mr. Chairman, if the Senator will yield. I obtained new figures which I can't say increase the amount or decrease the amount. I would like to have those new figures put in by the chairman as he understands them to be.

(The matter referred to follows:)

Department of Commerce, Maritime Administration—Operating-differential subsidies fiscal status—1961 budget estimate distributed by calendar year

Calendar year	Voyages	Domestic cost	Subsidy accrual	Recapture	Estimated subsidy payable	Estimated subsidy paid through fiscal year 1959	Amount of subsidy remaining to be paid	Estimated to be paid fiscal year 1960	Estimated to be paid fiscal year 1961	Estimated to be paid subsequent fiscal year 1961
A. Present contracts:										
1947	476	$24,586,577	$13,438,553	$10,123,647	$3,314,906	$3,314,906				
1948	1,017	59,019,808	28,074,594	14,423,382	13,651,212	13,502,316	$148,896	$148,896		
1949	1,242	95,217,911	44,215,652	14,336,272	29,879,380	29,735,125	144,255	144,255		
1950	1,292	107,523,466	57,875,613	8,938,909	48,936,704	48,623,881	312,823	312,823		
1951	1,303	134,104,354	71,923,136	25,372,741	46,550,385	46,110,851	439,534	439,534		
1952	1,336	164,194,755	89,198,442	25,993,071	63,205,371	61,950,975	1,254,396	1,254,396		
1953	1,517	187,714,874	106,040,616	12,318,756	93,721,860	89,311,893	4,409,967	4,409,967		
1954	1,448	189,510,691	107,104,464	2,122,792	104,981,672	97,946,499	7,035,173	5,009,779	$2,025,394	
1955	1,557	205,923,244	114,659,057	11,860,173	102,798,884	95,745,925	7,052,959	4,204,442	2,848,517	
1956	1,655	211,825,423	128,727,770	23,117,956	105,609,814	91,996,184	13,613,630	7,144,455	6,469,175	
1957	1,736	239,815,862	145,399,489	26,884,142	118,515,347	102,620,315	15,895,032	1,671,000	7,213,000	$7,011,032
1958	1,744	236,681,622	145,091,484	5,320,812	139,770,672	108,077,442	31,693,230	13,220,000	4,500,000	13,973,230
1959	1,750	237,496,000	145,591,250	5,339,250	140,252,000	26,931,457	113,320,543	92,000,000	5,000,000	16,320,543
1960	1,800	244,281,492	149,750,388	5,491,656	144,258,732		144,258,732	31,000,000	93,000,000	20,258,732
1961 (6 months)	900	122,140,746	74,875,194	2,745,828	72,129,366		72,129,366		31,000,000	41,129,366
Subtotal	20,773	2,460,036,825	1,421,965,702	194,389,397	1,227,576,305	815,867,769	411,708,536	160,959,547	152,056,086	98,692,903
PENDING APPLICATIONS										
C. Great Lakes operators:										
1960	25	2,419,750	1,586,050	58,700	1,527,350		1,527,350		1,200,000	327,350
1961 (6 months)	10	967,900	634,420	23,480	610,940		610,940			610,940
Subtotal	35	3,387,650	2,220,470	82,180	2,138,290		2,138,290		1,200,000	938,290
Total	20,808	2,463,424,475	1,424,186,172	194,471,577	1,229,714,595	815,867,769	413,846,826	160,959,547	153,256,086	3,256,086
Total 1960								160,959,547		
Available 1960								128,917,835		41,712
Estimated supplemental 1960 (rounded)								32,000,000		102,928,991
1961 appropriation request (rounded)									150,000,000	

Senator BUTLER. Good. All right. If the chairman will do that, the point that I want to make is this: That while the Government of the United States bears these costs, there is a recovery item to the extent of approximately 25 percent of these costs. So the Government has in fact recovered some of this money. Isn't that correct?

Mr. MORSE. I don't have a copy of that statement from Senator Lausche.

Senator LAUSCHE. I might say that the figures which I have, which I put in the record, obviously had those sums excluded.

Senator BUTLER. That is the point I want to make. As the record now stands, they were excluded.

Senator LAUSCHE. These figures were given to me by your office: Total accrued subsidy—pardon me—

Senator BUTLER. I want to clear this.

Senator LAUSCHE. Total accrued subsidy, $1,128,294,349. I will give the figures in round numbers.

U.S. Government recapture withheld, $183 million.

Subsidy payable, $944 million. Payments made, $815 million. Balance due, $128 million.

Mr. Ackerman, of the Maritime Administration, who gave the above figures, stated that the amount of recapture withheld, $183 million, does not, of course, include amounts recaptured prior to World War II. Since that time we obtained those figures, and they are $32 million. So the total recapture is $215 million against $1,128 million paid.

Senator BUTLER. The point I want to make, on the basis of those figures, is this: That while the Government pays a subsiby to shipbuilders and operators, it nevertheless does not permit any of them to get any more than would make them break even with their foreign competitors. And if they get any more than that, they have to refund the money back into the Treasury. Isn't that correct?

Mr. MORSE. That is not quite correct.

Senator BUTLER. What is the situation?

Mr. MORSE. We pay them subsidy which puts them on a parity as to certain operating costs, the four items of cost that I referred to.

The recapture is applicable against their profits. They are permitted to retain 10 percent after taxes of their profits, based on their capital necessarily employed, which is roughly comparable to their net worth. To the extent that they have profits in excess of that 10 percent, one-half of those excess profits is returnable to the Government over a 10-year period. That is the $215 million that Senator Lausche referred to.

The foreigners may or may not make profits, as much or greater. So that the subsidy has no direct relationship, or the recapture has no direct relationship to the profits that the foreigners may make.

Senator BUTLER. We naturally assume that they make much larger profits than we do because they get the same rates we do and their manning costs are not as much as ours, and their material costs are not as much as ours.

Mr. MORSE. They have some cost advantages that the American operators do not.

The CHAIRMAN. Senator Lausche would like to have in the record, from the Board, these figures that he mentioned. They will go in the record at this point.

Senator LAUSCHE. You should prepare a letter and put in the operating figures and ship construction figures.

Mr. MORSE. We will do so.

The CHAIRMAN. The record will remain open for that purpose.

(The matter referred to follows:)

Department of Commerce, Federal Maritime Board, Maritime Administration—Summary of 1961 budget

	Appropriation 1960	Request 1961
Ship construction	$130,250,000	$129,000,000
Title V	107,750,000	106,000,000
Acquisition of replaced ships	16,000,000	14,000,000
Research and development	3,900,000	6,000,000
Administrative and warehouse	2,600,000	3,000,000
Operating-differential subsidies	[1] 160,750,000	150,000,000
Salaries and expenses	14,014,400	14,925,000
Administrative expenses	7,714,400	8,086,000
Shipyards	688,400	371,700
Warehouses	711,600	953,300
Reserve fleet expenses	4,900,000	5,514,000
Maritime training	2,900,000	3,195,000
State marine schools	1,110,000	1,270,000
Grand total	[1] 309,024,400	298,390,000

[1] Figures include anticipated 1960 supplemental appropriation of $32,000,000 for operating-differential subsidies.

SHIP CONSTRUCTION

Title V construction, $106,000,000.—(Construction-differential subsidy and national defense features) 14 cargo and combination ships under the ship replacement program.

Acquisition of replaced ships, $14,000,000.—Acquisition of 14 ships traded in under the ship replacement program.

Research and development $6,000,000.—Provides for special studies, component development and nuclear research.

Administrative and warehouse, $3,000,000.—Expenses incident to administering the authorized program.

OPERATING-DIFFERENTIAL SUBSIDIES

Contemplates payment of 100 percent of subsidy payable due each operator through calendar year 1956.

Language of appropriation provides for maximum allowable voyages under contract of 2,190; this will permit an increase of 175 voyages over the number currently under contract.

SALARIES AND EXPENSES

Administrative expenses.—Provides increases in funds for additional staff for regulatory, operating subsidy and Federal ship mortgage insurance activities.

Shipyards and warehouses.—Provides for maintenance of two shipyards, disposal of excess warehouse stocks, and consolidation of east coast warehouses.

Reserve fleet expenses.—Provides maintenance of 922 priority vessels.

MARITIME TRAINING

Provides continuation of present program for training cadets at Kings Point.

STATE MARINE SCHOOLS

Provides continuation of present program for aid to States and student allowances as authorized by Public Law 85–672.

Summary of current ship construction program

	1958	1959	1960	1961
Replacement program:				
American Export Lines, Inc	4	4	----	4
American Mail Line, Ltd	----	----	3	----
American President Line, Ltd	2	----	----	----
Farrell Lines, Inc	----	----	5	----
Grace Line, Inc	----	----	3	5
Lykes Bros. Steamship Co., Inc	5	4	4	----
Mississippi Shipping Co. Inc	----	3	----	----
Moore-McCormack Lines, Inc	4	3	----	----
Pacific Far East Line, Inc	----	----	2	----
States Steamship Co	----	----	4	----
U.S. Lines Co	----	----	----	5
Total ships	15	14	21	14

Senator BUTLER. Is it not a fact that even though recent shipbuilding bids have shown a downward trend, there has been a steady increase in the cost of building ships?

Mr. MORSE. Yes, sir. Let me say this. Some of the recent Mariner bids, we have had better prices, less expensive bids on ships than we did a year or so ago, primarily because the yards are hungry for work and they are bidding with little or no profit in the bid. Less than a couple of years ago, because they had quite a backlog of orders for tankers which developed solely through the Suez situation.

Senator BUTLER. You maintain the records in your department which will show how the shipbuilder made out after the ship has been delivered, whether or not he made a profit; do you not?

Mr. MORSE. Yes; we do have those records.

Senator BUTLER. In the recent past do those records indicate that the shipbuilders of America have made a profit or realized a loss?

Mr. MORSE. On many of the recent awards they have been losing money rather than making money.

Senator BUTLER. They have been losing money on the more recent constructions?

Mr. MORSE. Yes, sir.

Senator BUTLER. How far back would that go?

Mr. MORSE. Mr. Hoffmann, who is Chief of our Office of Ship Construction, advises me that with few exceptions, since 1955 most of the yards have lost money on their bids.

Senator BUTLER. Let me ask you this question: In the light of the competitive situation, and in the light of what you have just said, that the shipbuilding costs are increasing, and that the builders are losing money and have been since 1955, how realistic is it to adopt the suggestion of the Secretary of Commerce—and I don't want to put you in the position of answering this question if you don't think you should—to try to negotiate below 50 percent the bid of the shipbuilder?

Mr. MORSE. The Board has the option of negotiation on these contracts under the law. But we have not felt it desirable to do so because we were aware that the yards were bidding at virtually cost. In one instance, as a matter of fact, when we did attempt to get a yard to reduce its cost, it said that we had made a counteroffer and they therefore withdrew their bid.

The CHAIRMAN. I am familiar with that one.

Senator BUTLER. Then I think, Mr. Administrator, the second point that you made in your statement, you said that this differential subsidy is to the builder of the ship, is it not?

Mr. MORSE. It is.

Senator BUTLER. If you negotiate downward, you are in effect giving the owner the shipbuilder's profit and going against the spirit of the act which gives the builder the subsidy, aren't you, if you negotiate downward?

Mr. MORSE. It does have that effect, certainly, to a degree. But we are in a position of trying to get ships built and trying to accommodate the needs of the shipowners and also the needs of the shipbuilders.

Senator BUTLER. I know what a task you have, and I know what a wonderful job you have done. I am not complaining about it at all.

Mr. MORSE. Thank you, very much.

Senator BUTLER. It brings up another thought to mind. If the builders are losing money, and prices are increasing, it is reasonable to assume that maybe they would lose more, and if you negotiate downward doesn't that in effect almost destroy the competitive bidding? What does it do to bidding when you do that sort of thing?

Mr. MORSE. Negotiations, as well as allocations, tend to destroy the validity of competitive bidding.

Senator BUTLER. When you say allocations, you mean the discretion to put it in one yard over another?

Mr. MORSE. For national defense justification.

Senator BUTLER. For national defense purposes. And you say both of those are destructive of competitive bidding.

Mr. MORSE. In my opinion, yes.

Senator BUTLER. While you do not appear here in opposition to the Department of Commerce, you personally believe, as an individual and an American citizen appearing before the committee of the United States Senate, that this bill should pass?

Mr. MORSE. I would rather not express a view on it. I indicated what I thought the main points are that the committee should consider.

Senator BUTLER. I will not press you.

The CHAIRMAN. Mr. Morse, I do think you ought to clear this up. It is true that allocations set aside a technically competitive bid in some cases. Is that correct?

Mr. MORSE. If I understand what your question is, we have awarded, under the allocations authority, contracts—we have taken contracts from a low bidder and awarded part or all of the contract to another bidder who is a higher bidder, on the basis of national defense allocation requirements.

The CHAIRMAN. Although technically it is a quasi-violation of strict competitive bidding, the exemption in the law for allocations was put there for a good reason.

Mr. MORSE. For defense purposes.

The CHAIRMAN. Not as to yards, but as to areas.

Mr. MORSE. Correct.

The CHAIRMAN. Realizing, which we did during the war, that the Pacific coast, the east coast, and the gulf coast, should have some equality commensurate with their shipbuilding facilities in order to keep all three in as good condition as we could—that was the reason for the allocations authority.

Mr. MORSE. That is correct.

The CHAIRMAN. Which the Navy of course has used on many occasions for the same reason.

Mr. MORSE. That is my understanding.

Senator BUTLER. That is exactly the point I want to make. Under the National Defense Act, under an act of Congress, in that event, the Navy has the right to do that very thing, to keep the defense potential in existence.

Mr. MORSE. Yes, sir.

The CHAIRMAN. Are there any further questions?

Senator LAUSCHE. I have some. Have you given any thought to whether or not this general system, under which we guarantee to provide the money furnished by taxpayers, acts as an inducement to the shipbuilders and to the labor leaders, to become indifferent about increased prices and pricing ourselves out of the market, concluding that the Federal taxpayer will put up the money?

Mr. MORSE. I think it does not, for several reasons. For example, Bethlehem is one example. They have both a steel operation as well as a shipbuilding operation. And if they were to get their wage scales out of adjustment in their shipbuilding activity, they would have repercussions in the steel industry side. That may not be true with a number of other yards that are solely shipbuilders.

Senator LAUSCHE. You are speaking now of the management?

Mr. MORSE. Correct.

Senator LAUSCHE. Now, let's get to labor leaders.

Mr. MORSE. Secondly, as far as management is concerned, they hope to build ships that are not subsidized by the Government—tankers and vessels that are used in the domestic trades. The higher they get their prices, the less opportunity they will have of building those vessels.

As far as labor is concerned——

Senator LAUSCHE. You don't know?

Mr. MORSE. I just don't know the answer. But it is arguable, certainly, that labor, feeling that the Government is going to pay part of the bill, would have less reason for negotiating for low wages rather than higher wages. But then I couldn't prove that one way or the other. I think they are just as anxious to have jobs as you or I are, and if they thought that they were pricing themselves out of the market, they would trim their sails.

Senator LAUSCHE. Aren't we, by what we are doing, dealing with the symptoms without trying to get to the causes? The cause of the increased subsidy is that we are pricing ourselves out of the market.

Mr. MORSE. That is correct.

Senator LAUSCHE. And to put ourselves into the market we say let the taxpayers put up the difference.

Mr. MORSE. That is one alternative. Another alternative as far as the ship operators are concerned, we can permit them to build their ships abroad.

Senator LAUSCHE. That is all that I have.

The CHAIRMAN. The Senator from Maryland.

Mr. MORSE. That doesn't take care of the shipbuilding capability.

Senator BUTLER. There is no change in your policy that we must have this shipbuilding potential?

Mr. MORSE. No, sir.

Senator BUTLER. No change?

Mr. MORSE. No, sir; I know of nothing.

The CHAIRMAN. Mr. Chairman, I wish you would put in the record how many operators have had to pay in excess of parity with their foreign competition.

Mr. MORSE. We will put that in the record.

The CHAIRMAN. And then answer the question whether or not this will put the operator at a serious competitive disadvantage. Obviously it would.

Mr. MORSE. It would, and I indicated that in the points I mentioned, the difficulty that the maritime would have in finding economic feasibility for the building of ships where there is that excess cost.

The CHAIRMAN. Thank you, Mr. Morse.

(See letter from Federal Maritime Board on p. 104).

Estimated cost to owner due to statutory 50-percent ceiling on construction differential subsidy (based upon estimate at time of contract award)

Owner	Contractor	Contract date	Number of vessels	Remarks	Estimated cost per vessel			Total cost all vessels
					If awarded low bidder	Due to 502(d) only	Total	
Pacific Far East Lines	Bethlehem Pacific Coast Steel Corp.	September 1959	2	502(d) applicable	$140,000	$160,000	$300,000	$600,000
American Mail Lines, Ltd	Todd Shipyards Corp	August 1959	3	do	0	290,000	290,000	870,000
Mississippi Shipping Co., Inc	Avondale Marine Ways, Inc.	May 1959	3		90,000	0	90,000	270,000
Grace Line, Inc	Bethlehem, Sparrows Point	February 1960	3		37,000	0	37,000	111,000

The CHAIRMAN. Mr. Thomas Killefer is here, who is the executive director of CASL.

Do you have a statement to make?

STATEMENT OF THOMAS KILLEFER, EXECUTIVE DIRECTOR, COMMITTEE OF AMERICAN STEAMSHIP LINES

Mr. KILLEFER. Mr. Chairman, I have no statement. I would like to introduce to the chairman and to the members of the committee the chairman of the CASL Vessel Replacement Committee, Mr. Nemec.

The CHAIRMAN. Mr. Nemec is listed as a witness.

Mr. KILLEFER. If the committee desires he can sit here by me.

Mr. Chairman, I would like to say in introducing Mr. Nemec that our organization, the Committee of American Steamship Lines, has been engaged in a continuing analysis of shipbuilding prices, both foreign and domestic, for a period of at least 5 years. In the course of our analysis we have retained from time to time both foreign and American naval architects.

The chairman of our vessel replacement committee, Mr. Nemec, was commissioned by us a year ago last May to make a tour of the world shipbuilding centers, in the Far East, in Great Britain, and on the continent of Europe. Thus we really have a considerable body of knowledge on the subject.

All of the data that we have compiled on shipbuilding prices have been made available to the Maritime Administration and to the Department of Commerce.

Much of this was reflected in our prior testimony before the committee in San Francisco, and some of it we have reproduced for you here today.

Mr. Nemec has spearheaded our efforts in this entire area from the beginning, and he has a vast amount of detailed information on the subject.

The CHAIRMAN. All right.

We will be glad to hear from you, Mr. Nemec.

TATEMENT OF MR. NEMEC, CHAIRMAN, COMMITTEE OF AMERICAN STEAMSHIP LINES VESSEL REPLACEMENT COMMITTEE

Mr. NEMEC. Thank you, Mr. Chairman.

I also do not have a prepared statement. But I do feel that without attempting to burden the committee it would be very helpful to review some of the charts that we presented at the San Francisco hearing.

Senator Lausche has asked certain very pertinent questions as to cost trends, cost components, and matters of that nature. I think just a few minutes' review of a number of these charts will answer a great many question, certainly, that he and Senator Butler raised.

Incidentally, these charts were reduced and are attached to the testimony of one of our witnesses at the San Francisco hearing, so they are already a part of the record.

The CHAIRMAN. As the Senator from California and I remember, the man who explained the cost charts was outside the industry but was hired to make this study by you people?

Mr. NEMEC. Yes, sir. It was Mr. J. J. Henry, who is president of J. J. Henry, Inc., in New York. He has been retained on a permanent basis to act as our coordinator of foreign cost information.

The CHAIRMAN. All right.

Mr. NEMEC. Through him, so long as we have this subject open, Senator, we have three of the leading naval architectural and cost engineering firms in the world that are retained independently and professionally supply data as to general cost trends, and specific cost studies on individual ships.

Here in the first group we have shown pictorially the flow of the construction subsidy rates during the period from 1957 through 1959. You can see visually how they progressed in steps, almost.

We would point out that in this latter group these are basically tentative determinations. They have been put together on a basis of maritime estimates which may, and probably are, somewhat on the low side. So we have a reasonable expectancy that when the final costs are in, and the final rates are determined, they will move upward somewhat.

How much we don't know. We don't think it is going to be material, but there does seem to be some tendency toward increasing the differential as escalation costs are added to the contract bid prices of American shipyards.

The second display here is to give you the shipyard ideas as to what the differentials may be. The shipyards have entered bids on two bases: The so-called escalation form and a fixed-price basis. In a fixed-price basis they have anticipated escalation, and I have added it to their contract prices.

So as you can see, in that pattern the shipyards have a reasonable expectancy or did have a reasonable expectancy that the actual differentials would in fact exceed these Federal Maritime Board tentative determinations. But, again, that is a matter of conjecture. All we are saying, in effect, is that it is likely that the final differentials will somewhat exceed these levels.

I might stop as I finish with each one of these and ask whether or not there are any questions on the particular chart.

Senator LAUSCHE. I have some.

The CHAIRMAN. Senator Lausche.

Senator LAUSCHE. Are those columns set forth in groups of three?

Mr. NEMEC. No. That is merely the manner in which the shipbuilding program has been contracted, Senator. In 1957, there were three individual contracts placed with three individual shipowning companies.

Senator LAUSCHE. What do those columns represent?

Mr. NEMEC. They represent the level of the construction differential subsidy. This one, for example, shows that in the case of Moore-McCormick Lines, the differential there was 45.2 percent; in the case of Lykes, 44.5 percent; in the case of Export Lines, 45.3 percent.

Then in the next year, as the pattern progressed—and I think you will have a better grasp as to why this has occurred when we show you some charts indicative of world shipbuilding prices and price trends—in this period of time there was an upward movement and a widening of the gap.

These rates are purely tentative rates, as we have said. They represent the Maritime Administration's best judgment. But I

have reason to believe—my company is here, Lykes, at 48.4 percent—I have reason to believe that that differential will in fact exceed 50 percent before the final costs are in.

So is probably also the case with Moore-McCormick Lines, and very likely also—not likely with Export, impossible with Export since that contract was placed on a fixed-price basis.

Senator LAUSCHE. Are the groups of three the same companies for each?

Mr. NEMEC. No, sir.

Senator LAUSCHE. *They are different?*

Mr. NEMEC. If they are the same, it is merely a coincidence. These companies were the first to commence the freighter replacement program.

Senator LAUSCHE. *What was the percentage of rise between 1957* and 1959 of the highest column for the respective years?

Mr. NEMEC. *About 10 percent. Between 10 and 12 percent.*

Senator LAUSCHE. Let's go to the next half. Will you explain the *next half, because I haven't seen it.*

Mr. NEMEC. This half represents what the differential would be *or would have been, based on fixed-price bids of individual shipyards.* So what we are saying, Senator, is that this represents the shipyard *judgment as to what escalation they would have incurred during that* period of time.

They have no price protection, and they must put a factor in their contract to protect themselves for anticipated rises in costs of *materials.*

This second chart shows the worldwide price trends in terms of an *index. These are for identical ships, and they are families of ships* and they are not directly related, but they do show what has happened *to shipbuilding prices in these countries during this period of time.* We have used 1959 as the basis of 100. In that extension we have *shown what has happened from the period from 1955, 1956, 1957, 1958,* and 1959. You will note in this period of time that rising from the 1955 base to the postwar post-Suez speculative boom in foreign yards, there was a tremendous increase in the selling prices of foreign ships.

This peak may be somewhat exaggerated because it was basically a speculative market. Orders, however, were in fact placed in these markets at these relative prices. So you can see very clearly here that from 1955 to the end of 1956, and into 1957, Japanese selling prices increased by almost 175 percent.

Putting that in another form, in 1955 you could buy a typical 47,000-ton tanker in Japan for about $140 a deadweight ton. Two years later the Japanese, realizing that they were in a sellers market, were getting in the neighborhood of $240 and $250 a ton from willing buyers.

That market situation created a temporary influx of orders into the American market. While the peak in Germany was not quite as high, the curve is fully indicative of the price inflation in buying ships in world markets.

In the United States there was an influx, and you can see that there was some rise in the price of ships, but not nearly as great, relatively, as happened abroad.

Basically, the U.S. shipbuilder had the opportunity to build some tankers at prices which were then temporarily competitive with the

world market prices. But immediately following the bursting of the Suez bubble you can see what happened to the prices.

The CHAIRMAN. Isn't that a good reason, Mr. Nemec, to keep the American shipbuilding facilities available, because we find that when there is a seller's market the foreign shipbuilders take advantage of it?

Mr. NEMEC. Yes.

The CHAIRMAN. Whereas our costs are more steady?

Mr. NEMEC. Yes. That is absolutely correct.

The CHAIRMAN. They took advantage of it in most cases because of the delivery time.

Mr. NEMEC. Absolutely. You are entirely correct.

The CHAIRMAN. You would pay more to get a quicker delivery.

Mr. NEMEC. Yes. And in that temporary period the American prices were very close to the foreign market, and the premiums were thought disproportionate as they normally are.

But here is what happened to the prices in the ensuing period: They have driven down. And in the foreign market today they are at or below their 1955 levels. There is every indication that foreign shipbuilding prices, in a fiercely competitive market—and I can't underscore those words "fiercely competitive" enough—will go even lower.

There are new factors being added which will drive—in our opinion, will result in driving those foreign prices lower. The Communist nations are introducing shipbuilding as part of their economic war of negotiations with the West.

They have been a very disruptive influence in prices in the free world and have secured contracts which are hard to get. They have been intruding more and more into it. That and a variety of other factors which I will touch on briefly have brought this about.

The CHAIRMAN. Off the record.

(Discussion off the record.)

Senator LAUSCHE (presiding). I have one or two questions.

Mr. NEMEC. Would you care to look at the others?

Senator LAUSCHE. I would like to have them explained for information purposes.

Mr. NEMEC. I will hasten along with it. You were very much interested in these shipbuilding costs and prices, and it was principally for that reason that we had these blown up so that I could explain it to you.

This is a typical distribution of material, which basically is somewhat of a misnomer; labor, overhead, and engineering, as between three major shipbuilding areas of the world: United States of America, Germany, and Japan.

The reason I say "material" is a misnomer—it includes labor as part of fabrication cost. We would have in material, for example, turbine drives, gears, electrical components, and things of that nature. To the best of our judgment, the basic material costs, which might be called millstock or stell stock, would represent a section of about 20 to 25 percent of the overall shipbuilding dollar. The balance of it in large part represents labor. This is less true of the foreign side.

Labor, because of the low rate, is not nearly as large a factor in shipbuilding as it is on the American side. Their material, about a third of them, in millstock, represent the basic material cost, and

the balance represents fabricating costs in subcontractors' shops and things of that nature. That basically is all that this chart would purport to show.

Senator LAUSCHE. Do you concur with the word of Mr. Morse that our competitive position is growing worse?

Mr. NEMEC. Yes, sir.

Senator LAUSCHE. Is it growing worse because the labor costs of the other nations are going down, or because ours is going up?

Mr. NEMEC. Basically, Senator, there are two elements. In answer directly to your question, it is a combination of both. I think it is made perfectly plain by this chart. This is an analysis of shipyard hourly earnings in the United States, in Germany, and in Japan.

During this period you can see here, at this level——

Senator LAUSCHE. What period does that cover?

Mr. NEMEC. This covers a period, taking the beginning of 1952, through the end of 1958. During that period of time the American shipyard labor rate rose from about $1.84 to about $2.60 per hour.

Senator LAUSCHE. It went up 80 cents per hour in 8 years, is that correct?

Mr. NEMEC. That is correct; approximately.

Senator LAUSCHE. That is 80 cents as against $1.80. That would be about 45 percent. Now let's go to Germany.

Mr. NEMEC. In the case of Germany, the basic rate here was about 44 cents, and that has risen to about 66 at the comparable period. That difference was an increase of about 26 cents. So your direct American labor cost has risen almost 50 cents an hour more than your foreign labor cost.

Senator LAUSCHE. Let's go to Japan.

Mr. NEMEC. In the case of Japan, the situation is even somewhat worse. At the end of 1952, their labor rate was about 30 cents, and in spite of boom conditions—and this labor rate includes all their fringe benefits and all of their social security benefits, and there are many of them abroad—it rose to the neighborhood of 40 cents.

In other words, there was about a 10- to 12-cent-an-hour increase.

Senator LAUSCHE. That went from 30 to 40?

Mr. NEMEC. Yes, plus or minus a perny or two at each end.

Senator LAUSCHE. So ours went up 80 cents and theirs went up 10 cents in Japan?

Mr. NEMEC. Yes.

Senator LAUSCHE. So the fact is that their labor cost has gone up what you would say moderately, or practically imperceptibly, while ours has gone up substantially?

Mr. NEMEC. That has been in the absolute sense; yes, sir. Proportionately—and this is strange, starting from a very low base—their percentages of increase have been about the same as ours; I guess in each case a little bit greater, percentagewise.

Senator LAUSCHE. Does this percentage of rise apply rather generally to materials?

Mr. NEMEC. This is labor now, sir.

Senator LAUSCHE. That is labor. But directing your attention to the purchasing of material.

Mr. NEMEC. Materials, in the form of steel, which is the principal raw material which enters into shipbuilding, have remained almost constantly competitive over this period of time.

Senator LAUSCHE. And that is because we have steel available while Japan has to import?

Mr. NEMEC. Japan has a very small shipbuilding industry. During a large period of this time the price of steel in Japan was somewhat above the price of European steel and American steel.

As a matter of fact, during part of this period, and particularly after Suez, we were exporting large quantities of ship steel to Western European countries, when we were allocating in this country. Barter deals were made for the exchange of coking coal in exchange for steel to West Germany—things of that nature. Steel was in very short supply.

As shown here, in these two areas, which are the most directly competitive in the sense of having a normal market, Germany and the United States, the prices have been very constant. Only here, for the first time, do we notice that there is a perceptible division, and it is likely from forecasts of steel leaders that we will be at an increasing disadvantage in world steel markets, and this, too, will contribute in our opinion to a widening of this differential gap.

Senator LAUSCHE. We were priced out of the shipbuilding and ship operating market, let's say back on 1936, and that being priced out has grown worse since 1936.

Mr. NEMEC. That is correct, but that is also true, I might point out, of most other American industry today.

Senator LAUSCHE. What is your look into the future? Do you think we are going to hold this disparity at a constant level, or is it going to grow worse?

Mr. NEMEC. In our opinion the disparity is going to increase.

Senator LAUSCHE. Why do you think it is going to increase?

Mr. NEMEC. Principally, sir, because we feel that this labor line is going to be extended. You can, if you will, project—these rates in here are very comparable to basic steel rates. These are metal trade workers, by and large, and as Chairman Morse well pointed out they have an identity of interest. Some of the big shipbuilders are also steelmakers and there are compelling reasons to hold them in line with steel. But the steel rate now has gone through $3.06 and maybe up to—the best I can project—in the neighborhood of $3.40 an hour. It is inevitable not that a directly proportional increase will take place but that there will be quite normal union demands for increased hourly rates.

Again that curve as it goes up that way will be followed by a parallel curve in Japan and Germany, but the gap increases.

Senator LAUSCHE. Your position is that you are helpless in this whole matter?

Mr. NEMEC. Yes, sir. We stand four-square—and I want to make this clear—behind the maintenance of an adequate shipbuilding capacity in this country. Basically, in the economic sense, it doesn't matter to us whether we would build our ships in this country or in West Germany or in Japan. They would build ships which were as good and as serviceable, and possibly at a lesser cost, than we now get after construction subsidy from the United States.

Senator LAUSCHE. Do you have any interest in foreign countries in the building of ships?

Mr. NEMEC. None whatsoever, sir.

Senator LAUSCHE. That is, all of your investments, of those whom you represent, are in this country?

Mr. NEMEC. Every single one.

Senator LAUSCHE. I think that is all that I have. Do you have anything further to present?

Mr. NEMEC. I have a number of notes here, Senator, which would indicate which were fully in support of this bill, and that each one of our member companies, the 14 lines which represent CASL, fully endorses it. We are entirely committed—all of our corporate resources are committed to this long-range shipbuilding program.

Senator LAUSCHE. Is it your position that if we are to maintain a reasonably sized merchant marine, the Government subsidies will have to be increased unless there is a stabilization in the prices of labor and material?

Mr. NEMEC. I think that would be a fair statement, sir. I would point out, however, that since this chart has occurred, there have been increases on the American side already which will have, in my judgment, an inevitable consequence in raising prices in the future.

Senator LAUSCHE. What are those increases?

Mr. NEMEC. Basically in steel wages and in the labor rates in the metal tradework unions.

Senator LAUSCHE. And those sort of correspond, don't they, in their impact?

Mr. NEMEC. Yes, very much so.

Senator LAUSCHE. That is in the sheet metal workers industry and——

Mr. NEMEC. In a broader sense.

Senator LAUSCHE. And ironworkers.

Mr. NEMEC. They are, in a broader sense, a family group of unions.

I would like to conclude with one very brief remark. Yesterday Under Secretary Allen made a statement here which in effect said that we continue to be fully in support of the parity principle, but let's adopt a wait-and-see attitude. We think that at this particular juncture such an attitude would be very harmful to our industry. First of all it would discriminate among companies. Some companies, perchance, would have a rate which was fully representative of foreign costs because of the bidding situation, and others would not.

Each one of these percentage points represents a very, very substantial amount of money. We are today in a fiercely competitive international shipbuilding operation market. I can assure you that we are all giving very, very serious thought to this entire problem of high capital costs. Any additional burden of this nature which would be an artificiality would make it virtually impossible to proceed.

You heard the testimony here today of Chairman Morse and his attitude. I think I can assure you that ours would be very much the same, that we would be very much inclined to state to the Board that under these circumstances it simply is not economically feasible to go ahead with the building of these vessels, and we certainly don't think that that is in the interests of the United States or in the interests of the shipowners or shipbuilders of this country.

I am perfectly frank to say that there is a great deal of difference of opinion as to where foreign prices will go and where American ship prices are going. No one today knows the absolute answer. We don't. But if the administration—if Secretary Allen is right, if that difference decreases, we would be very, very happy with the result. But no harm would be done by passage of this bill. The Board retains its

complete freedom to find a proper rate and to do what is necessary. But if our opinion is correct, and if this difference widens, then we believe that irreparable damage could be done if this bill is not passed now. That is why we urge its passage.

Senator LAUSCHE. I would like to state my observations in the matter. Practically every week I hear the arguments made of the need of subsidies if our producers and manufacturers are to compete. The argument is repeatedly made that we can't compete unless we subsidize. I am alarmed about it, because by subsidy we are merely trying to treat the symptom without getting to the causes.

I have seen it move on, day after day, where these subsidies are being asked.

That is all that I have.

Mr. NEMEC. Thank you, Senator.

STATEMENT OF MR. ALVIN SHAPIRO, VICE PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE, INC.

Mr. SHAPIRO. My name is Alvin Shapiro. I am vice president of the American Merchant Marine Institute, the largest national association representing American shipowners and operators.

Some of our member lines operate under subsidy and others do not. Together they represent a substantial majority of our total American-flag fleet of tankers, freighters and passenger ships.

We favor enactment of S. 2584, a bill which would remove the numerical percentage ceiling on construction differential subsidy, now limited in the 1936 Merchant Marine Act to 50 percent.

Your committee held hearings on this subject during the first week of December last year, at which many detailed facts were submitted and compelling arguments given for enactment of the present proposal. To avoid excessive repetition, I shall confine my comments to only two basic points.

One need only read the Merchant Marine Act of 1936, even without long experience with the industry, to become convinced, beyond doubt, that it is rooted in the concept of parity. In fact, the relatively complicated procedures mandated by that law and by regulations promulgated by the administrative agency are monuments dedicated to the achievement of parity—no more, no less. If the Congress were then—1936—determined simply to assist our merchant marine outside of the parity concept, far simpler, though in my opinion less satisfactory and less enduring, tools would have been created.

Bear in mind throughout that the construction differential instrumentality is intended to provide U.S. shipowners, both subsidized and nonsubsidized in our foreign trade, with a vessel built here at no greater cost than they could purchase from abroad.

The benefit accrues to the Government through the maintenance of a shipbuilding industry here and, of course, to shipyards, much of whose survival has been contingent upon work generated under this policy. In the long run, the beneficiaries are the citizens of the United States—all of us.

Logically, therefore, there is no consistency between numerical limitations on the one hand and the principle of parity on the other. Perhaps in the middle 1930's the foregoing was not a real issue since labor and material cost differences between our country and others

industrially developed were not envisioned as growing in size as events of the last few years have proven to be the case.

Nevertheless, even as far back as 1937 the Maritime Commission in its "Economic Survey of the American Merchant Marine" pointed out that the 50 percent limitation would be a real obstacle to new construction here whenever foreign shipyard costs should become less than one-half of ours.

This has now come to pass, and will probably be accentuated, rather than diminished, in the years ahead. It has been created by many circumstances, some even of our own making, bearing in many respects on the competitive position of our total economy with that of Western Europe and the Orient. It is largely a result of the remarkable economic progress of American industry, perhaps best characterized as a tribute to our "level of living" in contrast with that abroad.

We therefore find ourselves faced with a most serious problem, to which there is but one solution which is fair and equitable, in the national interest and consistent with our fundamental maritime policy. We must not weaken the basic parity concept with which we now live, or impose upon U.S. shipowners costs beyond the 50-percent limitation which are not of their creation. To do otherwise would only strengthen foreign competitors' position at our own expense.

We urge, therefore, prompt and favorable action on the bill, S. 2584.

Senator LAUSCHE. How many members does the American Merchant Marine Institute have, Mr. Shapiro?

Mr. SHAPIRO. Fifty-two.

Senator LAUSCHE. I suppose they are the larger operators.

Mr. SHAPIRO. On the contrary, many of our companies own only one ship.

Senator LAUSCHE. You say there are many facts and circumstances that have contributed to the growth of this disparity in construction costs. Will you identify them a bit?

Mr. SHAPIRO. Yes. Not necessarily in order, but some that come to mind immediately are of course the tremendous progress of our laboring force in terms of the level of living that they have managed to achieve here, in many respect, due to the high degree of unionization among our labor force.

I think the creation of policies in the United States, or the development of policies in the United States, by which we dedicated ourselves only in the last 10 years, Senator, to developing tremendous progress in Europe and in the Orient, the skills, the machinery, the equipment we sent these people, all have contributed to put them in a competitive position from which we are now feeling the effect.

I was in Cleveland, one of the fair cities in your State, just this summer, and I saw steel being delivered there from abroad, at $55 a ton, less than can be produced within 50 miles of Cleveland itself. These are facts. We are discussing them only in their application to the shipbuilding industry. These are of great consequence to all of American industry.

Senator LAUSCHE. Will you stop at that point. If we were priced out of the market in 1936, that pricing out has become aggrevated since 1936?

Mr. SHAPIRO. No question about it in my mind.

Senator LAUSCHE. And you go so far as to say that we may be moving in that direction in connection with many other things that we try to sell in the world markets?

Mr. SHAPIRO. I think this is absolutely true, Senator.

Senator LAUSCHE. Our lack of competitive position has grown worse for a number of reasons. One, because of cheap labor, and secondly, they have now been able to implement that cheap labor with modern machinery that we helped them get.

Mr. SHAPIRO. Precisely. And I think this is felt——

Senator LAUSCHE. Let me ask you this: What is your feeling on what the steel phase of costs of construction will do to your costs in the future?

Mr. SHAPIRO. In connection with——

Senator LAUSCHE. Shipbuilding.

Mr. SHAPIRO. I think steel, being such a fundamental industry in this country, being a highly organized industry and employing so many thousands of people, I think steel prices are probably going to increase. The impact of this is going to be very severe on the shipbuilding industry. It is going to be very severe on me as a purchaser of an automobile. I think, as a matter of fact, the automobile industry——

Senator LAUSCHE. Is it partly because of that factor that we are now considering this need of increased subsidies for the shipbuilding industry?

Mr. SHAPIRO. Well, Senator, we are not speaking specifically about increased subsidies. We are speaking about removing a numerical limitation. Depending on how many ships you build under this, you may or may not increase the amount of the ship subsidy.

Senator LAUSCHE. But it is envisioned that the costs will be greater and therefore the 50 percent limitation ought to be removed.

Mr. SHAPIRO. All other things remaining equal, there will be an increased subsidy, yes.

Senator LAUSCHE. Read the preceding question, please.

(The reporter read the question.)

Mr. SHAPIRO. Yes, very directly. We have broken through the 50 percent horizon now because of labor and material costs and other aspects.

Senator LAUSCHE. This is just a philospohical approach. Do you see any danger to our system of government if there is to be an accentuation of the present trend that whenever we have priced ourselves out of the markets we should come to the Federal Government for subsidies?

Mr. SHAPIRO. May I give you a philosophical answer?

Senator LAUSCHE. Yes.

Mr. SHAPIRO. Yes; I see great danger of this.

Senator LAUSCHE. That is all that I have.

Mr. GRINSTEIN. In the hearing in San Francisco, Senator Magnuson brought out the fact that it wasn't necessarily that American shipbuilding costs were rising, but it is the question of an increasing disparity between foreign costs and American costs.

Mr. SHAPIRO. Yes.

Mr. GRINSTEIN. It would be possible, would it not, under this bill for the American Government to pick up even a higher percentage and yet pay a decreased subsidy?

Mr. SHAPIRO. It is conceivable, yes. This would depend on a number of factors.

Mr. GRINSTEIN. Are you familiar with any other American industry, other than the American Merchant Marine, that is forced

to utilize capital equipment that costs 50 percent or more than the cost of the equipment to its foreign competitors?

Mr. SHAPIRO. I think it is probable at its most extreme point in the American Maritime Industry. But it is rapidly approaching that point in many other industries, and I am praticularly mindful of the machine tool industry.

Senator LAUSCHE. Off the record.

(Discussion off the record.)

Senator LAUSCHE. That is all that I have. That will conclude this hearing.

(Thereupon, at 12:45 p.m., the subcommittee was adjourned.)

(The following material was subsequently submitted for the record:)

Release by Joseph Curran and Paul Hall, Seafarers' Section Maritime Trades Department, AFL–CIO March 4, 1960, "Why Isn't Merchant Marine Act Administered as Intended?"

Letter from L. R. Sanford, president, Shipbuilders Council of America, 21 West Street, New York, to Senator Magnuson February 23, 1960.

Letter from Earl W. Clark, and Hoyt S. Haddock, Labor-Management Maritime Committee, 132 Third Street SE., Washington, D.C., to Senator Magnuson dated February 17, 1960.

Letter from L. R. Sanford, president, Shipbuilders Council of America, 21 West Street, New York, N.Y. to Senator Magnuson March 16, 1960.

WHY ISN'T MERCHANT MARINE ACT ADMINISTERED AS INTENDED?

(Released by Joseph Curran and Paul Hall, cochairmen, Seafarers' Section, Maritime Trades Department, AFL–CIO)

The 1936 Merchant Marine Act contemplates that a substantial portion of our oil imports be carried in U.S.-flag ships. The oil companies are refusing to do this because they do not want to pay their fair and reasonable share of U.S. taxes or provide American wages and working conditions to U.S. merchant seamen. These un-American corporations are playing fast and loose with our foreign relations, national defense, and foreign commerce. They have so far been encouraged in this by the maladministration of the 1936 Merchant Marine Act. This through a policy of encouraging U.S. citizens to transfer U.S.-flag tankers to foreign flag and operate them under foreign flag. Of course, when a U.S.-owned tanker is operated under foreign flag this means that the cargo it carries is not available to a U.S.-flag ship. This elemental fact has repeatedly been denied or ignored by those who are responsible for carrying out our merchant marine policy of getting our oil imports carried in U.S.-flag ships.

We believe that the Maritime Administration should take immediate steps to require that a substantial portion of our oil imports and exports be carried in U.S.-flag ships. So that "substantial portion" may not become an interpretative football, we would defined it as not less than 51 percent with the proviso that it approach 100 percent by direct ratio to which foreign nations permit us to export to them oil products in U.S.-flag tankers.

We have heard people argue that the Administrator and Secretary of Commerce have no authority or effective method of requiring that U.S. oil imports be carried in U.S.-flag ships. Persons who indulge in such arguments are ignoring the specific authority and directives contained in sections 1212 (a), (b), (1), (2), (d) and 217 (b), of the 1936 Merchant Marine Act, engaging in self-imposed mental hypnosis, or are representing the un-American interests of the oil barons or foreign-flag companies. We can think of no other reason.

To those in the administration who cannot think of an effective means of requiring the corporations to use U.S.-flag ships, and honestly would like to see this done, we give the following example:

The Administrator or Secretary of Commerce requests the Standard Oil Co. of New Jersey to begin immediately to shift the importation of oil into the United States from foreign-flag to U.S.-flag ships. (We could have used the name of Standard Oil of New York, Standard Vacuum Oil, Cities Service, Gulf, Standard of California, Texaco, Tidewater, Sinclair, or other smaller oil companies. We chose Esso because they are the world's largest company, and control the price of oil and the price of its transportation.) We believe that if this were done in a

manner that would bring to the attention of the top officials of Esso how they are (1) jeopardizing our national defense; (2) permitting through their actions, unstable foreign dictators to control our foreign policy and that of our NATO allies; (3) endangering our foreign commerce; and, (4) creating conditions which may perpetually endanger our natonal security, that these responsible officials as good Americans will agree to carry a substantial portion of their oil cargoes in U.S.-flag ships.

Let us assume, however, that the officials of Esso who are responsible for such policy are un-American; that they put their corporation's profits ahead of the security of the people who use their products; disregard their nation's security; and have no interest in protecting our foreign relations or our commerce. Under such circumstances, the Secretary of Commerce and Maritime Administrator would ask the other Federal departments and agencies to stop using Esso products, or in any other manner assisting Esso excepting as may be required by law. The President, the Department of Commerce, and all other agencies of the Government could then tell the American public, who use more Esso products than any other oil company, why such action was taken.

These are the kind of actions the Administrator and the Secretary of Commerce could take. This is the kind of action they are "authorized and directed" to take. This is the kind of action their oath of office requires them to take.

Why is it then that this kind of action is not being taken by these officials?

SHIPBUILDERS COUNCIL OF AMERICA,
New York, N.Y., February 23, 1960.

Hon. WARREN G. MAGNUSON,
Chairman, Interstate and Foreign Commerce Committee, Senate Office Building, Washington, D.C.

MY DEAR SENATOR: I was present and listened with great interest to the testimony of Under Secretary Allen and Maritime Administrator Morse on February 15 and 16 in respect to S. 2584 relating to the 50-percent limitation on construction differential subsidies contained in the Merchant Marine Act, 1936.

As you know, I presented a statement at the prior hearing in December in San Francisco supporting the objective of S. 2584 on behalf of the council and its membership. However, the testimony of Under Secretary Allen last Monday left me with the feeling that the record is not altogether clear with respect to price and cost trends in shipbuilding, the reasons therefor, and the distinction between price and cost.

On the basis of that feeling, knowing your desire for the facts, I am constrained to write you in an endeavor to clarify the matter to you personally and, if you see fit to take the appropriate action, to also have the record of the hearing clarified for the benefit of the members of the committee.

Under Secretary Allen stated that shipbuilding costs in American and foreign yards are in a downward trend.

This statement is not in accordance with the facts. It is a fact that recent shipbuilding bids, both abroad and here, have indicated a downward trend. This is due to lack of available work with resulting intense competition to obtain some portion of that which is available in order to carry the shipyards through a distress period. Bidding prices thus have been forced down.

Prices and costs, however, are two entirely different things. Actually costs have continued to increase and inevitably will continue to increase as a result of higher wage rates and higher material and equipment costs.

So we have the present anomalous situation of a decreased price trend in the face of an increased cost trend. That condition could be prolonged as long as shipbuilding capacity so greatly exceeds the potential demand for ships. Shipyards will have to take desperate measures to enable them to survive.

The competitive situation alone will not result in further decreases in shipbuilding costs. There might be further decreases in bid prices but not in costs. The introduction of new equipment and manufacturing techniques, whatever they may be, can have only a minor effect on costs when the volume of business is so low that the question of survival is preeminent. It takes a large volume of business to obtain any substantial benefits from new equipment and new manufacturing techniques. Even then any substantial cost reduction is more likely to result from the proration of overhead costs over that large volume of business, thus reducing the cost per unit produced, than from technological economies.

As to the effect of new equipment and manufacturing techniques in creating greater productivity of labor, that desirable objective has yet to be demonstrated, and such a demonstration is unlikely to be accomplished under low workload conditions which prevent any economies which might be inherent in new or in multiple and repetitive production processes.

A very important factor preventing maximum labor productivity is the existence of restrictive practices included in union bargaining agreements, which the unions will not or at least have not voluntarily surrendered. Until the millenium, which may never come to pass, when the employer gets maximum production for his payroll dollar, it is idle to expect too much in the way of reduced costs of production through greater productivity of labor, even with improved equipment and manufacturing techniques.

Secretary Allen stated in reply to a question from the chairman that the Department of Commerce hopes that costs will continue to go down. Costs have not gone down and there is absolutely no evidence to support any such hope. It is pure wishful thinking. The Maritime Administrator, Mr. Morse, testified that, although recent shipbuilding bids have shown a downward trend, there has been a steady increase in the cost of building ships. He also testified that, on many of the recent awards, the shipbuilders, on the basis of actual returned costs, have been losing rather than making money, and that that situation has obtained since 1955.

It should be perfectly, obvious that, with the cost-and-profit picture over the last 5 years as disclosed by Mr. Morse, there have been little or uo earnings with which to finance major shipyard modernizations as suggested by Secretary Allen and little, if any, justification for such programs in the foreseeable future in an effort to increase productivity and thus lower costs, in the face of continuing very low and even in some cases nonexistent workloads.

There is today a clear-cut and definite buyers market in the construction of new ships. This is the time, of all times, when a shipowner can get the most for his money in the way of a ship. On the other hand, if through timidity, a failure to realize the real situation, or a lack of available funds, either on the part of the owner or the Government, construction is postponed or deferred until next year, or the following year, or the year after that, both the owner who has a contract with the Government to build a replacement ship and the Government who has agreed to share the cost of that replacement to the extent of the construction subsidy will inevitably find themselves in a field of higher costs with resultant greater cost to each, and incidentally closer to that bugaboo of all shipowners and merchant marines, block obsolescence.

Postponing the decision on whether to rebuild now or wait until later solves no problems. Secretary Allen hopes that the labor cost of ships may go down, and, with that pious hope, suggests that no present action be taken to remove or raise the 50-percent limitation. Even in the unlikely event that the actual differential in the foreseeable future might drop back below 50 percent, the actual differential would always be used and no harm would have resulted from the elimination of the 50-percent limitation, the mere fact of which will enable the continuation of the parity concept if at any time the differential should exceed 50 percent. The 50-percent limitation originally placed in the bill had no particular significance—it was purely arbitrary. It is still arbitrary. Parity is the meat of the differential, not an arbitrary limitation.

Secretary Allen stated that he was not cognizant of the fact that shipbuilding is in a steady decline in this country. The record speaks for itself in that respect. Five months have elapsed since a contract has been executed in this country for a seagoing commercial vessel. This hiatus alone has a definite effect on the continuity of future workloads. The Maritime Administration's contractual replacement program is dragging badly due to lack of adequate appropriations. An annual construction subsidy appropriation which averages for a period of 6 years less than one ship per shipyard per year cannot sustain the shipbuilding industry.

There is no present prospect for additional tanker orders to supplement the tanker workload carryover from the aftermath of the Suez crisis. There likewise is no present prospect of replacements by the nonsubsidized lines and certainly very little prospect of tramp ship replacements, or of ore carrier replacements for other than domestic services.

The replacement vessels for which the Maritime Administration still has or will have appropriated funds which could be expended for construction differential subsidies during the balance of the year are sufficient to cover 16 ships from prior

appropriations and 14 ships from fiscal 1961 appropriations, if approved. Awards and usually made on a 3-, 4-, or 5-ship group basis, which, for a total of 30 ships, could mean participation by probably 7 or 8 shipyards provided each group went to a different yard. The net result could be that those yards fortunate enough or desperate enough to obtain such an award might be able to recoup their diminishing workloads, but not necessarily their profit status, whereas the balance of the shipyards by the end of 1960, or shortly thereafter, will have reached a period in which they must face the critical fact of survival.

I trust that the foregoing will help to clarify the present situation.

Sincerely,

L. R. SANFORD, *President.*

LABOR-MANAGEMENT MARITIME COMMITTEE,
Washington, D.C., February 17, 1960.

Hon. WARREN G. MAGNUSON,
Chairman, Senate Interstate and Foreign Commerce Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: The Labor-Management Maritime Committee desires to go on record as supporting S. 2584 now before the Interstate and Foreign Commerce Committee of the U.S. Senate. This bill would remove the numerical percentage ceiling on construction differential subsidy now limited in the Merchant Marine Act of 1936 to 50 percent.

We subscribe to and agree with the testimony on this bill given by the committee of American Steamship Lines and the American Merchant Marine Institute before your committee on February 16, 1960.

We believe the declaration of policy of the Merchant Marine Act of 1936 is as valid today as when the act was first passed by the Congress, and that its provisions for the national defense and the development of our waterborne commerce were never more applicable than at present.

The Merchant Marine Act of 1936 was grounded in the principle of parity. The subsidy program under this act has, through the years, maintained this principle, both as to operating and construction differential costs between foreign and American operators. The application of this principle has given support to an American operating fleet by making it possible to compete with lower cost foreign operators and has maintained our shipyards in an available state for defense purposes.

As to operating subsidy, the absence of any numerical limitation in the act has served to sustain the application of the parity principle.

The limitation of 50 percent in the construction subsidy provisions of the act, while of no applicable effect until recently, now threatens the principle of parity in the shipbuilding program. This is due to the fact that in some areas, the foreign shipbuilding costs have fallen to less than one-half the cost of building similar ships in American yards. Thus the 50 percent limitation is now in conflict with the principle of parity.

In addition, the shipyards of different foreign countries may be selected in determining the construction differential costs for different American subsidized lines, depending on the type of vessel to be built. For some, these costs would be under the numerical 50-percent ceiling. For others, the costs would exceed it, thus creating inequities as between American operators.

It is conceivable that the arbitrary figure of 50 percent was originally adopted as a ceiling with the anticipation that construction differential costs in excess thereof would not be reached—or if reached, the numerical limitation would serve as a flag for further review.

However this may be, the basic facts are that the construction differential costs have now broken this ceiling, which if not corrected, will do injustice to the parity principle itself and create unwarranted inequities as between American steamship lines.

S. 2584 now before your committee, is conceived to correct these effects. We believe passage of this bill is necessary both to the national defense and for the development of our foreign commerce. We strongly urge its passage.

Respectfully,

EARL W. CLARK,
HOYT S. HADDOCK,
Codirectors.

SHIPBUILDERS COUNCIL OF AMERICA,
New York, N.Y., March 16, 1960.

Subject: S. 2584.

Hon. WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR: I have taken the liberty of sending each member of the Committee on Interstate and Foreign Commerce, of which you are chairman, a letter in respect to S. 2584, typical copy of which is attached for your information.

I trust that this action meets with your approval.

Sincerely yours,

L. R. SANFORD, *President.*

SHIPBUILDERS COUNCIL OF AMERICA,
New York, N.Y., March 16, 1960.

Hon. JOHN MARSHALL BUTLER,
Committee on Interstate and Foreign Commerce,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR: The hearings before the Committee on Interstate and Foreign Commerce, of which you are a member, have demonstrated the necessity of favorable action on S. 2584. The purpose of this letter is to stress the urgency for such action and to solicit your assistance in obtaining its enactment in the present session.

The Merchant Marine Act, 1936, contained an arbitrary limitation of 50 percent on the construction differential subsidy required to place a U.S. shipowner in a position of parity with his foreign-flag competitor in respect to his capital investment in ships.

With the passage of time, for reasons beyond the control of the shipyards, the disparity between the cost of building a ship in the United States and abroad has gradually increased. While shipbuilding costs in the United States and abroad have both increased, U.S. costs have increased at a greater rate than foreign. As a result, the 50 percent limitation in the 1936 act, which seemed to provide ample leeway at the time of enactment, now threatens to prevent the Government from absorbing the actual difference between United States and foreign costs. In several recent instances, the Federal Maritime Board has found the actual differential to be in excess of 50 percent, but has been limited to an allowance of 50 percent, thus requiring the shipowner to absorb any excess over 50 percent. The net result of such a situation is to competely shatter the parity concept in respect to capital investment in ships, one of the keystones of U.S. maritime policy as set forth in the 1936 act.

There appears to be little, if any, prospect that the relative trend in costs will be reversed in the near future with the result that U.S. shipowners will be faced with heavier capital investment in ships than their foreign counterparts unless the present 50 percent limitation is removed or raised so that the Government can continue to absorb the actual difference in ship costs between the United States and abroad and the shipowner can continue to obtain the parity contemplated by the 1936 act.

Unless prompt action is taken with respect to this arbitrary limitation, the entire replacement program of the subsidized shipping lines to which both they and the Government are committed by contract may be placed in jeopardy with the possibility that shipping lines will be unwilling or unable to proceed with replacement commitments. Such an eventuality would be disastrous to the U.S. merchant marine and thus to both the national economy and the national security. It would be equally disastrous to the shipbuilding and ship repair industry, which in turn also is vital both to the national economy and the national security, because that industry must of necessity depend upon the subsidized lines replacement program for a very substantial part of the workload necessary to permit it to continue to function in an efficient and economical manner.

For the foregoing reasons your good offices are solicited to expedite action on S. 2584 as being in the national interest.

Sincerely,

L. R. SANFORD, *President.*

(The comments from the Government agencies follow:)

THE SECRETARY OF COMMERCE,
Washington, D.C., March 11, 1960.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is in reply to your request of August 24, 1959, for the views of this Department with respect to S. 2584, a bill to amend title V of the Merchant Marine Act, 1936, in order to remove certain limitations on the construction differential subsidy under such title.

The bill would delete the second, third, and fourth sentences from subsection (b) of section 502 of the Merchant Marine Act, 1936 (46 U.S.C. 1152), which limit the construction differential payable by the Government to 50 percent of the construction cost of the vessel, and substitute the following sentence in lieu thereof: "In any case where the lowest bid of a responsible domestic shipbuilder is found to be unreasonable or excessive, the proposed contract may be negotiated with the view to construction in a domestic shipyard at reasonable cost."

The bill would also delete the last sentence in subsection (d) of section 502 of the Merchant Marine Act, 1936, which limits the construction differential payable by the Government to 50 percent of the construction cost of a vessel constructed under the provisions of this subsection.

It should be noted that subsection 502(b) of the 1936 act, although limiting construction differential payable to 50 percent of the construction cost of a vessel, contains the authority to disregard bids and negotiate a construction contract in certain instances. Subsection 502(b) provides, in pertinent part that: "In any case where the Commission finds that the construction differential exceeds 33⅓ per centum of such cost and that the lowest bid of a responsible domestic shipbuilder is unreasonable, excessive, or collusive, the Commission may negotiate and contract with the view to construction in a domestic shipyard that is not unreasonable or excessive in cost or collusive in character. Where the Commission finds that the construction differential exceeds 50 per centum of such cost, the Commission may negotiate and contract on behalf of the applicant to build such vessel in a domestic shipyard at a cost which will reduce the construction differential to 50 per centum or less." This provision, to authorize the Government to disregard bids and negotiate a construction contract if all bids exceed 50 percent of the domestic construction cost or there is fraud in the bidding, would be removed from the act by enactment of the bill.

The purpose of the Merchant Marine Act, 1936, as amended, was to develop and maintain an adequate and well-balanced American merchant marine. In order to do this, it was determined that operators of American-flag vessels had to be placed on a parity with foreign-flag operators in operation of their vessels as to specified and determined items of expense, and, up to the point where the Government's cost equals that of the shipowner, in the construction of the new vessels.

The soundness of the direct subsidy system incorporated in the 1936 act to meet foreign competition has been generally recognized, and there have been only two departures from the 50 percent limitation. One was during World War II when the limitation was lifted as a general war emergency measure by authorizing the foreign cost determinations to be made on the basis of conditions existing in the period prior to 1939. The other was in special legislation authorizing construction of two superliners.

At the time the Merchant Marine Act, 1936, was enacted the prevailing construction-differential subsidy applicable to new vessel construction in domestic shipyards ranged between 30 and 40 percent of the domestic construction cost of the vessel. During the period between October 1958 and 1959, the difference between foreign costs and domestic costs with respect to certain vessel construction projects under title V of the act ranged between 48.4 and 52.1 percent. Obviously, the owners of American-flag vessels will be required to pay more for their new ships than their foreign competitors if the difference between foreign and American shipbuilding costs remains in excess of 50 percent.

The Department has been unable to determine at this time whether this will continue to be the situation. We do know, however, that shipbuilding prices in

American and foreign yards are on a downward trend. Recent studies show that few new contracts for ships are being placed, and that shipbuilding capacity greatly exceeds demand. The competitive situation and more efficient production, resulting from the introduction of new equipment and manufacturing techniques and greater productivity of labor, could result in further decreases in shipbuilding prices. The recent bids for the Mariner-type ships for States Steamship show that between the first half of 1959 and November, shipyards in the United States reduced their bid figures.

The difference between American and foreign shipbuilding costs is not substantially in excess of 50 percent. In view of present trends, we do not believe that removal of the 50 percent limitation is justified at this time.

The Department of Commerce is, therefore, opposed to S. 2584, and recommends that it not be given favorable consideration.

The Bureau of the Budget has advised that it would interpose no objection to the submission of this report to the committee.

Sincerely yours,

PHILIP A. RAY,
Under Secretary of Commerce.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, September 24, 1959.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
U.S. Senate.

DEAR MR. CHAIRMAN: Your letter dated September 10, 1959, acknowledged September 11, refers to our report dated September 2 on S. 2584 to your committee, and indicates a belief that our comments on this bill may have been based on a misunderstanding that the proposed legislation was motivated by the higher cost of vessel construction to Pacific coast operators resulting from the 6-percent differential authorized by section 502(d) of the Merchant Marine Act.

You advise that the bill was introduced by Senator Butler and yourself as a result of a recent finding by the Federal Maritime Board that the true construction differential based upon parity is presently in the neighborhood of 51 percent on some classes of vessels and on your understanding it may be as high as 60 percent on other classes. In view thereof, you request any further comments on S. 2584 that we may care to offer.

We regret that the language in the third paragraph of our report may be susceptible to the interpretation you have indicated, and we appreciate the opportunity to clarify our comments on the proposed legislation.

As you will note from the comments in the fourth paragraph of our report, we were fully cognizant of the fact that the bill was designed and intended to remove the 50-percent ceiling on construction-differential subsidy, without reference to whether the applicant was subject to the provisions of section 502(d).

However, at the same time this Office was considering your request for a report on S. 2584, we were also considering a request from the Federal Maritime Board for an opinion on its authority to negotiate lower contract prices in a case where Atlantic and Pacific coast bids on construction subject to section 502(d) resulted in a tentative determination by the Board that the construction differentials were 51 and 51.9 percent, respectively. We assume that this is the same finding by the Board which is referred to in your letter. As you will note from the enclosed copy of our decision to the Chairman of the Board (B–140448, September 3, 1959), it is our opinion that the negotiation authority in section 502(b) of the act is not available to operators subject to section 502(d) so long as bid prices are between 200 and 212 percent of estimated foreign construction cost. As a result, the possibility of negotiating lower contract prices which may result in parity with the cost of foreign construction is not available to such operators.

To this extent the concluding remarks in our report on S. 2584, which pointed out the existence of authority to negotiate lower prices when the construction differential exceeds 50 percent, have no application, and our references to additional costs borne by Pacific coast operators were intended only to distinguish between cases of this nature and those cases in which the authority to negotiate lower contract prices may be exercised at any time that bid prices result in a construction differential in excess of 50 percent.

As indicated in our prior report, whether the 50 percent limitation on construction-differential subsidy should be removed in those cases in which the authority

to negotiate parity prices is presently available appears to be entirely a question of congressional policy, and we therefore make no recommendation with respect to enactment of S. 2584.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, September 3, 1959.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
U.S. Senate, Washington, D.C.

MY DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 2584, to amend title V of the Merchant Marine Act, 1936, in order to remove certain limitations on the construction differential subsidy under such title.

The proposed legislation would amend section 502(b) of the Merchant Marine Act, 1936 (46 U.S.C. 1152(b)), to eliminate provisions which limit the amount of the construction differential subsidy to 50 percent of the construction cost of the vessel.

The proposed legislation is not of primary interest to this Department and the Department has no comment to make as to its general merits.

Very truly yours,

NELSON P. ROSE, *General Counsel.*

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